

Company Registration Number - 3312220

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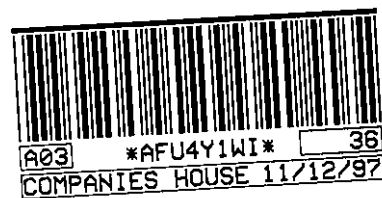
DMA DESIGN LIMITED

ANNUAL REPORT

SIX MONTHS ENDED 31 JULY 1997

PANNELL KERR FORSTER

Chartered Accountants



DMA DESIGN LIMITED**ANNUAL REPORT****SIX MONTHS ENDED 31 JULY 1997****DIRECTORS**

I C Stewart	- Chairman
J Richards-Stewart	- Managing
P J Hill	- Finance
J North-Hearn	- Product
D S Jones	- Creative

SECRETARY

C M Stockwell

REGISTERED OFFICE

The Green House
33 Bowdon Street
Sheffield
S1 4HA

SOLICITORS

Dibb Lupton Alsop
Sheffield

Pinsent Curtis
London

AUDITORS

Pannell Kerr Forster
Sheffield

BANKERS

National Westminster Bank plc
Birmingham

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DIRECTORS' REPORT

The directors present their report together with the financial statements for the six month period ended 31 July 1997.

1. RESULTS AND DIVIDENDS

The loss for the financial period after taxation was £111,062 and the directors recommend that no dividend be paid.

2. REVIEW OF THE BUSINESS

The company was incorporated on 4 February 1997 under the name of Pinco 900 Limited. On 3 April 1997 the company acquired certain of the assets and liabilities of DMA Design Limited and changed its name to DMA Design Limited.

The company's principal activity during the period was the conception and development of computer games software.

Given the level of support from the parent and other group companies, until such time as development contracts will generate sufficient income to cover ongoing operating costs, the directors consider the level of activity for the first period of trading and its period end financial position to be satisfactory.

3. DIRECTORS

The directors at the end of the period were as follows:-

I C Stewart
J Richards-Stewart
P J Hill
J North-Hearn
D S Jones

The following directorship changes occurred during the period.

Pinsent Curtis Director Limited was appointed as a director on incorporation and immediately resigned its position.

	<u>Appointed</u>	<u>Resigned</u>
I C Stewart	26 March 1997	-
J Richards-Stewart	26 March 1997	-
P J Hill	26 March 1997	-
J North-Hearn	26 March 1997	-
S Bailey	26 March 1997	26 June 1997
D S Jones	3 April 1997	-

The directors had no interest in the shares of the company. The interests of the directors in the shares of the ultimate parent company, Gremlin Group Plc, are shown in the accounts of that company.

Under the Articles of Association the directors are not required to retire by rotation.

DIRECTORS' REPORT

4. DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:-

- * select suitable accounting policies and then apply them consistently;
- * make judgements and estimates that are reasonable and prudent;
- * follow applicable accounting standards, 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 enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

5. RESEARCH AND DEVELOPMENT

The company is committed to product development with the aim of increasing its market share.

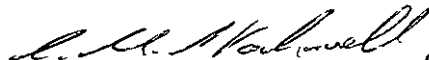
6. PAYMENT POLICY

The company does not have a standard creditor payment policy but agrees terms and conditions for its business transactions with suppliers. Payment is made in accordance with those terms. Creditor days at the end of the period, being the ratio of trade creditors to total purchases from suppliers was 83 days.

7. AUDITORS

A resolution to re-appoint the auditors, Pannell Kerr Forster, will be proposed at the annual general meeting.

11 November 1997



By order of the board

C M STOCKWELL

Sheffield

Secretary

AUDITORS' REPORT TO THE SHAREHOLDERS OF**DMA DESIGN LIMITED**

We have audited the financial statements on pages 5 to 14 which have been prepared under the accounting policies set out on pages 7 and 8.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 July 1997 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

11 November 1997

Sheffield

Pamell Ken Fartz

Chartered Accountants
Registered Auditors

DMA DESIGN LIMITED**PROFIT AND LOSS ACCOUNT****SIX MONTHS ENDED 31 JULY 1997**

	<u>Notes</u>	<u>£</u>
TURNOVER	2	95,940
Cost of sales		<u>54,823</u>
GROSS PROFIT		41,117
Administrative expenses		<u>221,926</u>
OPERATING LOSS		(180,809)
Interest payable and similar charges	4	<u>2,772</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	5	(183,581)
Tax on loss on ordinary activities	6	<u>(72,519)</u>
LOSS FOR THE FINANCIAL PERIOD		<u>(111,062)</u>

All amounts relate to continuing operations and the period of trading from 3 April to 31 July 1997.

The company has no recognised gains or losses other than those shown above.

DMA DESIGN LIMITED**BALANCE SHEET****31 JULY 1997**

	<u>Notes</u>	£	£
FIXED ASSETS			
Tangible assets	7		344,807
CURRENT ASSETS			
Stocks	8	247,165	
Debtors	9	114,920	
Cash at bank and in hand		<u>364</u>	
		362,449	
CREDITORS - Amounts falling due within one year	10	<u>1,505,041</u>	
NET CURRENT LIABILITIES			(1,142,592)
TOTAL ASSETS LESS CURRENT LIABILITIES			(797,785)
CREDITORS - Amounts falling due after more than one year	10		3,877,629
NET LIABILITIES			<u>(4,675,414)</u>
CAPITAL AND RESERVES			
Called up share capital	11		1
Other reserve	12		(4,564,353)
Profit and loss account	12		<u>(111,062)</u>
EQUITY SHAREHOLDERS' FUNDS	13		<u>(4,675,414)</u>

Approved by the board on 11 November 1997

J RICHARDS-STEWART - Director



DMA DESIGN LIMITED**NOTES TO THE FINANCIAL STATEMENTS****SIX MONTHS ENDED 31 JULY 1997****1. ACCOUNTING POLICIES**

The following accounting policies have been used in dealing with items which are considered material to the company's affairs.

Basis of accounting

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

Accounting for goodwill

Under the principles of acquisition accounting, the assets and liabilities of acquired businesses are incorporated at their fair value. Any difference between the fair value of the net assets acquired and the fair value of the consideration, including any difference between the exercise price and estimated market value of any options granted as part of the acquisition, is accounted for as goodwill.

Goodwill arising upon acquisition is written off immediately against reserves.

Cash flow statement

The company has taken advantage of the exemption provided by Financial Reporting Standard No.1, as a wholly owned subsidiary undertaking, not to prepare a cash flow statement.

Tangible fixed assets and depreciation

Tangible assets are depreciated by annual instalments over their estimated useful lives as follows:-

Computer equipment	-	33% straight line on original cost
Fixtures and fittings	-	25% straight line on original cost
Motor vehicles	-	25% reducing balance on original cost

The charge is based on the original cost of the asset, not the price at which it was acquired by the company, and has the effect of adopting group depreciation rates.

Stocks

Product development expenditure including internal programming salary costs is carried forward to the extent that it is considered to be recoverable. The amount carried forward is written off over the expected sales life of each product.

Leases and hire purchase contracts

Assets held under finance leases and hire purchase contracts are capitalised as tangible fixed assets and the obligation to pay future rentals under such leases and contracts is included in creditors. Payments in respect of the finance charge element of the leases and contracts are charged to profit and loss account so as fairly to apportion the charge over the duration of the leases and contracts.

Rentals payable under operating leases are charged in the profit and loss account in the period in which they are incurred.

DMA DESIGN LIMITED**NOTES TO THE FINANCIAL STATEMENTS****SIX MONTHS ENDED 31 JULY 1997****1. ACCOUNTING POLICIES (continued)****Foreign currencies**

Assets and liabilities expressed in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Differences arising on translation and on the conversion of ordinary foreign currency transactions during the period are dealt with as part of the profit on ordinary activities.

Deferred taxation

Provision is made for deferred tax, using the liability method, to the extent that it is probable that a liability will crystallise.

Royalty income

Royalties receivable on products released prior to the period end are credited to the profit and loss account when due.

Guaranteed royalties falling due under contracts for products under development at the period end are credited to the profit and loss account in full, and attributable product development costs are charged in the same period.

Research and development

Research and development expenditure not relating to specific projects intended for commercial exploitation is written off in the period in which it is incurred.

Turnover

Turnover represents sales at invoice value less trade discounts allowed and excluding value added tax.

Pension costs

The Company contributes regular payments to personal pension plans of the employees' choice.

The pension cost charge represents contributions payable by the Company to the schemes in respect of the period.

DMA DESIGN LIMITED**NOTES TO THE FINANCIAL STATEMENTS****SIX MONTHS ENDED 31 JULY 1997****2. TURNOVER**

The company engages in only one class of business and all sales were within the United Kingdom.

3. STAFF PARTICULARS

	£
Staff costs comprised:	
Wages and salaries	629,780
Social security costs	67,525
Other pension costs	<u>440</u>
	697,745
	<u><u> </u></u>
	<u>Number</u>
Average number employed in the period:	
Programming	94
Administration	<u>6</u>
	100
	<u><u> </u></u>

4. INTEREST PAYABLE AND SIMILAR CHARGES

	£
Hire purchase and finance lease interest	2,402
Bank interest	<u>370</u>
	2,772
	<u><u> </u></u>

DMA DESIGN LIMITED**NOTES TO THE FINANCIAL STATEMENTS****SIX MONTHS ENDED 31 JULY 1997****5. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION**

£

The loss on ordinary activities before taxation is after charging:

Depreciation written off tangible fixed assets	98,100
Loss on sale of fixed assets	1,216
Operating lease rentals - land and buildings	27,331

Directors' emoluments:

Salaries and other emoluments	49,734
Pension contributions	440

£

Highest paid director:

Salary and other emoluments	49,734
Pension contributions	440

During the year three directors, including the highest paid director, exercised share options over shares in the ultimate parent company.

The company paid contributions to one director's own pension scheme.

6. TAX ON LOSS ON ORDINARY ACTIVITIES

£

Corporation tax group relief receivable	(72,519)
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DMA DESIGN LIMITED**NOTES TO THE FINANCIAL STATEMENTS****SIX MONTHS ENDED 31 JULY 1997****7. FIXED ASSETS - TANGIBLE**

	<u>Computer equipment</u> £	<u>Fixtures & fittings</u> £	<u>Motor vehicles</u> £	<u>Total</u> £
<u>Cost</u>				
Additions	381,509	24,480	71,193	477,182
Disposals	<u>(1,216)</u>	<u>-</u>	<u>(33,059)</u>	<u>(34,275)</u>
At 31 July 1997	<u>380,293</u>	<u>24,480</u>	<u>38,134</u>	<u>442,907</u>
<u>Depreciation</u>				
Charge for period	<u>91,476</u>	<u>3,544</u>	<u>3,080</u>	<u>98,100</u>
At 31 July 1997	<u>91,476</u>	<u>3,544</u>	<u>3,080</u>	<u>98,100</u>
<u>Net book amounts</u>				
At 31 July 1997	<u>288,817</u>	<u>20,936</u>	<u>35,054</u>	<u>344,807</u>

The net book amount of motor vehicles includes £35,054 in respect of assets held under finance leases or hire purchase agreements. Depreciation charged in the period on such motor vehicles amounted to £3,080.

The vehicle disposed of in the period was sold at net book value to Gremlin Interactive Limited, a group undertaking.

8. STOCKS

Products in the course of development

£

247,165

DMA DESIGN LIMITED**NOTES TO THE FINANCIAL STATEMENTS****SIX MONTHS ENDED 31 JULY 1997****9. DEBTORS**

£

Due within one year:

Trade debtors	95,940
Other debtors	4,129
Prepayments and accrued income	<u>14,851</u>

114,920

10. CREDITORS

Amounts falling due within one year:

Bank overdraft (see note 14)	636,425
Trade creditors	22,200
Amount owed to other group undertaking	611,681
Hire purchase liabilities	13,377
Other creditors:	
Other taxation and social security	59,908
Other	156,308
Accruals and deferred income	<u>5,142</u>

1,505,041

Amounts falling due after more than one year:

Amount due to ultimate parent undertaking	3,871,000
Hire purchase liabilities (repayable in two to five years)	<u>6,629</u>

3,877,629

The hire purchase liabilities are secured by fixed charges over the relevant assets.

11. CALLED UP SHARE CAPITAL

One share was issued on 4 February 1997 being the date of incorporation of the company.

	<u>Authorised</u>	<u>Allotted and</u>
	£	fully paid
	£	£
Ordinary shares of £1 each	1,000	1
	<u> </u>	<u> </u>

DMA DESIGN LIMITED**NOTES TO THE FINANCIAL STATEMENTS****SIX MONTHS ENDED 31 JULY 1997**

12. RESERVES	<u>Other reserve</u> £	<u>Profit and loss account</u> £
Loss for the period	-	(111,062)
Goodwill on acquisition	(4,564,353)	-
At 31 July 1997	(4,564,353)	(111,062)
	<hr/>	<hr/>

Details of the acquisition are shown in the financial statements of Gremlin Group Plc.

The cumulative amount of goodwill resulting from the acquisition in the current financial period, which has been written off directly against reserves is £4,564,353 (1996: £Nil).

13. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	£
Ordinary share issued in the period	1
Loss for the financial period	(111,062)
Goodwill written off	(4,564,353)
At 31 July 1997	(4,675,414)
	<hr/>

14. FINANCIAL COMMITMENTSOperating Leases

The company has operating lease commitments to pay during the next year as follows:

On leases ending within two to five years:

Land and buildings	85,750
	<hr/>

Other commitments

The company entered into a composite cross guarantee with other group companies on 19 June 1997 to secure the bank overdraft for all group companies, to a maximum limit of £2,000,000.

As at the balance sheet date the potential liability under the guarantee was £Nil.

DMA DESIGN LIMITED**NOTES TO THE FINANCIAL STATEMENTS****SIX MONTHS ENDED 31 JULY 1997****15. GOING CONCERN**

In the opinion of the directors the financial statements have been properly prepared on a going concern basis having taken into account future income receivable from ongoing development projects. Until the products are complete, the company will receive ongoing financial support from its parent company, or other group companies.

16. ULTIMATE PARENT COMPANY AND CONTROL

DMA Design Limited is a wholly owned subsidiary of Gremlin Holdings Limited, a company incorporated in Great Britain. This company is also the immediate controlling party. The ultimate parent company and ultimate controlling party is Gremlin Group Plc, a company incorporated in Great Britain.

17. RELATED PARTY TRANSACTIONS

On 3 April 1997 the Group acquired certain assets and liabilities from DMA Design Limited, now Assistamount Limited, a company in which D S Jones has a material interest. The ultimate beneficiaries of the consideration were D S Jones and his immediate family. As an integral part of this transaction the Group made a loan to Assistamount Limited. This loan bears interest at a floating rate of 1.25% above Barclays Bank Plc's base rate. As at 31 July 1997 the balance of the loan was £331,000. This loan is guaranteed by D S Jones.

No disclosure has been made within these financial statements of any transactions with the ultimate parent company or fellow subsidiaries in accordance with the exemptions allowed by Financial Reporting Standard No.8.