SCi Entertainment Group Plc
Annual report and accounts 2007

creating family entertainment

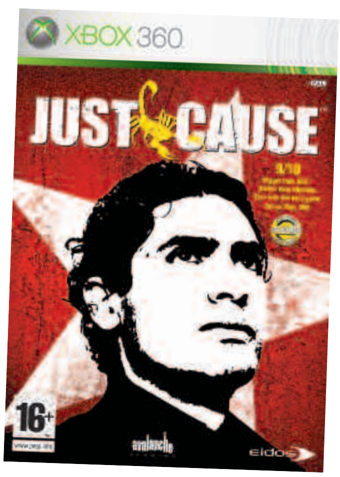
SCi Entertainment Group Plc
SCi Entertainment Group is a public limited company registered in England (number 3121578). Its ordinary shares are listed on the London Stock Exchange (ticker SEG.L). SCi Entertainment Group Plc is the parent company of the SCi and Eidos group of companies. Unless otherwise stated, the text in this Annual Report does not distinguish between the activities and operations of the parent Company and those of its subsidiary undertakings. This is the Company's Annual Report for the 12 month period ended 30 June 2007 and has been prepared in accordance with UK regulations. It is also available on the Company's website at www.sci.co.uk.

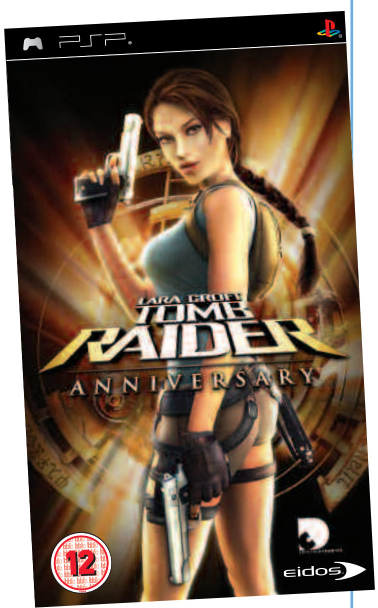
Forward-looking Statements
This Annual Report contains information about our past performance or practices. No such information should be used as an indicator of future performance or practices. It may also contain forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. You can identify these statements by their use of words such as 'will', 'anticipate', 'estimate', 'expect', 'project', 'intend', 'plan', 'should', 'may', 'assume' and other similar words. You should not place undue reliance on our forward-looking statements, which are not a guarantee of future performance and are subject to factors that could cause our actual results to differ materially from those expressed or implied by these statements. Such factors include: general economic conditions in the Group's markets, particularly levels of consumer spending; exchange rates, particularly between the pound sterling, the euro and the US dollar, in which the Group makes significant sales; the Group's ability to continue to win acceptance of its products, which are offered in highly competitive markets characterised by continual new product introductions, rapid developments in technology and subjective and changing consumer preferences (particularly in the entertainment business); the Group's ability to attract and retain qualified personnel; risks of doing business internationally; and other risks described from time to time in SCi Entertainment Group Plc's periodic reports and filings. We undertake no obligation to update our forward-looking statements, whether as a result of new information, future events or otherwise. No information contained in this Annual Report constitutes or shall be deemed to constitute an invitation or otherwise to deal in ordinary shares of SCi Entertainment Group Plc. The price of securities and income derived from the securities can go down as well as up.

Contents

Background

SCi is one of the world's leading publishers and developers of entertainment software. We create and own content for a wide range of digital media including PC, Sony's PlayStation® 2, PlayStation® 3 and PSP®, Microsoft Xbox 360 and Xbox Live, Nintendo Wii and DS, the internet, mobile phones and digital television. We own some of the strongest brands in the games industry including *Tomb Raider*, *Hitman*, *Championship Manager*, *Conflict*, *Just Cause*, *Thief*, *Carmageddon*, *Deus Ex* and *Kane & Lynch*. We have licensed the interactive rights to a number of film and TV properties including *Batman*™, *Looney Tunes*™, *Highlander*, *Reservoir Dogs* and *Who Wants to Be a Millionaire*? The Group employs over 950 people in nine countries and our wholly-owned development studios include Crystal Dynamics, Io Interactive and Eidos Montreal.





Key points

Results for the year
Revenue for the year fell principally due to the timing of product launches and weaker retail prices on old generation platforms. Both of these factors reflect the hardware transition in the video games market. An exceptional provision of £13.8 million has been established against the carrying value of capitalised development costs.

Actions to build the Group
During the financial year the Group has taken steps to build long-term value. These include:
- Strategic relationship with Warner Bros.
- Acquisitions to strengthen New Media Business.
- Significant investment in product pipeline including products for the successful Nintendo Wii and DS platforms.
- Establishment of new development studio in Montreal.

Changes to the Board
Following the non-executive appointments of Roger Ames and Don Johnston during the year, the Board has been further strengthened by the appointment of Phil Rogers as CFO. Bill Ennis becomes Managing Director – Publishing; Rob Murphy becomes Managing Director – Studios.

Brand highlights

- *Tomb Raider Anniversary* celebrates ten years of the *Tomb Raider* franchise with a number one hit and 1 million units sold during the year.
- Two new franchises, *Just Cause* and *Battlestations: Midway*, were successfully launched and became number one hits. Over 1 million units of *Just Cause* have now been shipped.
- Success with *Pony Friends* on Nintendo DS illustrates the Group's ability to create new franchises for a younger and broader audience in line with the Group's strategy.
- Following the release in late May in Europe and June in North America, *Pony Friends* shipped 300,000 units on Nintendo DS by the financial year-end, ahead of original expectations for that period, and is continuing to sell well during the 2008 financial year.
- A version of *Pony Friends* for the Nintendo Wii is planned.
- Strength of Group's IP confirmed by the release of the first *Hitman* movie, and sale of film rights for *Kane & Lynch*.
- Much anticipated launch of new franchise *Kane & Lynch: Dead Men* released in November 2007 on PS3, Xbox 360 and PC.

Our strategy

Our objective is to deliver attractive long-term returns for our investors through profitable growth. This is achieved by implementing the following business strategies:

Improve the customer offering: Creating, acquiring and exploiting a strong portfolio of IP across commercially successful platforms.

Grow the player base: Broadening our product range and growing our player base geographically and demographically.

Sustainable growth: Expanding the business through sustainable organic growth and selective acquisition of strategically important businesses.

Careful management: Detailed planning and careful management of business and development risks.

Constant change: Embracing new opportunities presented by the digital age.

staying ahead

The global video games market is in transition and is estimated to grow from $27 billion in 2005 to $46 billion in 2010 (source: PwC). We believe SCi is well placed to capitalise upon this market fuelled by a new generation of consoles, handheld devices and mobile platforms. Additionally, new online markets, together with the broadening demographics of game consumers will provide a strong basis for growth in 2008 and beyond. The Group has a growing stable of highly recognised proprietary and licensed IP, proven development capacity, best of breed development technology and a global publishing infrastructure.

Formats in 2007

- Sony PlayStation® 2
- Nintendo Gamecube
- Microsoft XBox
- Sony PlayStation® 3
- Nintendo Wii
- Microsoft XBox 360
- Nintendo DS
- Sony PSP®
- Gameboy Advance SP
- Gameboy Micro
- Mobile Phones
- PC

Formats in 2000

- Sony PlayStation
- Nintendo N64
- Sega Dreamcast
- Sony PlayStation® 2
- Gameboy
- PC

"*Tomb Raider Anniversary* is easily one of the best games released all year."
Eurogamer

"This is a glorious romp down a memory lane reimagined at the outer extremes of the PS2's technological capabilities."
Daily Mail

"It's a Lara, Lara fun."
The Sun

strong portfolio

Management of intellectual property is key to the Group's success. SCi has a strong history of franchise success, and a pipeline of world leading titles. The Group's ownership of blockbuster digital content including *Tomb Raider* and *Hitman* is underpinned by 11 other franchises which have sold more than one million units each. Franchises such as *Kane & Lynch* and *Battlestations: Midway* have the potential to join this list. We also license in the interactive rights to brands that have high recognition and game potential. Our product portfolio was further strengthened during the year by our strategic partnership with Warner Bros. providing access to a number of well known mass market licences.

"*Hitman: Blood Money* is a brilliant slice of cerebral gaming."
Games Master

"*Blood Money* feels fresh, focused and utterly compelling. You owe it to yourself to play this."
PSM2

"*Blood Money* is without question the best *Hitman* yet."
Official PlayStation® 2 Magazine

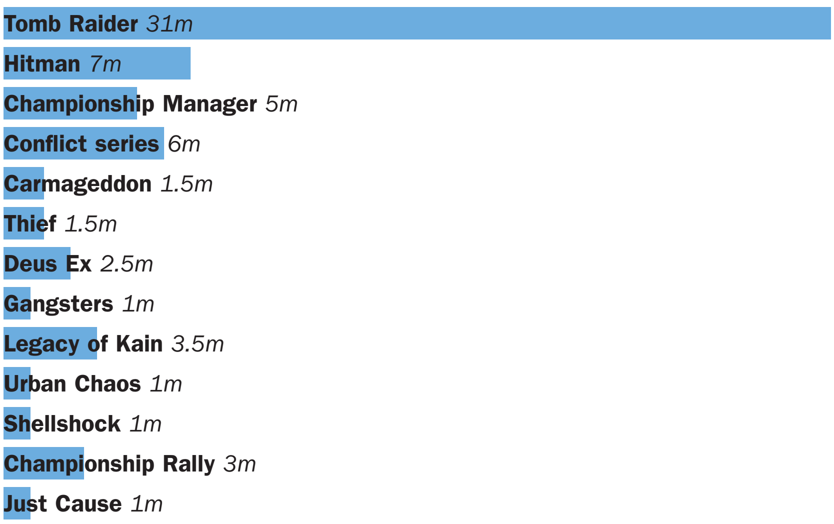
"It's a bloody marvellous game..."
Xbox 360 Gamer

creating brands

During the year the Group has made good progress in further building its established franchises, launching new and valuable intellectual property and expanding its portfolio of strong licensed products. Two new franchises, *Just Cause* and *Battlestations: Midway*, were successfully launched and became number one hits during the year. Over 1 million units of *Just Cause* have now been shipped. The strength of the Group's IP has been further confirmed by the release of the first *Hitman* movie and sale of the film rights for *Kane & Lynch* to premier independent producer, Lionsgate. Development of *Conflict: Denied Ops** is on track for multi-platform release in the 2008 financial year.

* Formerly known under the working title *Crossfire.*

Fully-owned IP to sell 1 million + units



winning partnerships

The Group has established partnerships with some world leading media groups – Warner Bros., Fox and Paramount. During the year Warner Bros. subscribed for a 10.3% shareholding in the Group for a cash investment of £44.5 million. Additionally, we entered into a series of licensing arrangements with Warner Bros. Interactive Entertainment to create and publish games based on a series of their properties including *Batman*, *Looney Tunes* and the Hanna-Barbera catalogue.

The Group also derives licensing income and benefits from increased brand awareness by exploiting the non-game rights of its intellectual property. Paramount Pictures has already released two highly successful films based on the *Tomb Raider* franchise and 20th Century Fox has recently released a film version of *Hitman* starring Timothy Olyphant as Agent 47.

Wholly-Owned Development Studios
Crystal Dynamics USA
Io Interactive Denmark
Beautiful Game Studios UK
Pivotal Games UK
Eidos Hungary
Eidos Studios Sweden
Eidos Montreal Canada
Rocksteady UK (25.1%)

Licensed IP
Reservoir Dogs
Who Wants to be a Millionaire?
Highlander
Warner Bros. property including:
Hanna-Barbera characters
***Looney Tunes* characters**
Batman
Wacky Races™

New Media
New Media UK
Rockpool Games Mobile
Morpheme Mobile
Bluefish Media Digital distribution

broader audience

The market for video games is broadening demographically by age and gender. A generation of gamers is moving through the population. According to research published in 2007 by the US Entertainment Software Association, 24% of gamers in the US were over the age of 50. The average age of game players is 33, and the gender split is 62% male to 38% female. Women aged 18 or older now represent a significantly greater portion of the game-playing population (31%) than boys age 17 or younger (20%).

For casual online puzzle-style and simple mobile phone games, the gender divide is more or less equal*. Further growth in the available market is expected to derive from less mature markets, such as Brazil, Russia, India and China, which are experiencing rapid growth in entertainment and media spending.

Success with *Pony Friends* on Nintendo DS illustrates the Group's ability to create new franchises for a younger and broader audience in line with the Group's strategy. Following release in late May in Europe and June in North America, *Pony Friends* had shipped 300,000 units on Nintendo DS by the financial year-end, ahead of original expectations for that period, and is continuing to sell well during the 2008 financial year. We plan to expand the franchise by introducing further *"Friends"* games on a variety of platforms including Nintendo Wii.

The Group will have released a total of ten titles for the Nintendo DS and Wii platforms by Christmas 2007.

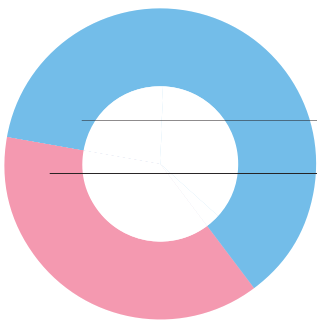
* Source: Nielsen Entertainment Active Gamer Study.

"As pony caring sims go, *Pony Friends* is really rather excellent."
Pro-g.co.uk

"This game could be the best news for parents this year."
The Times

"It's exactly what a horse-focused virtual pet experience should be about."
IGN.com

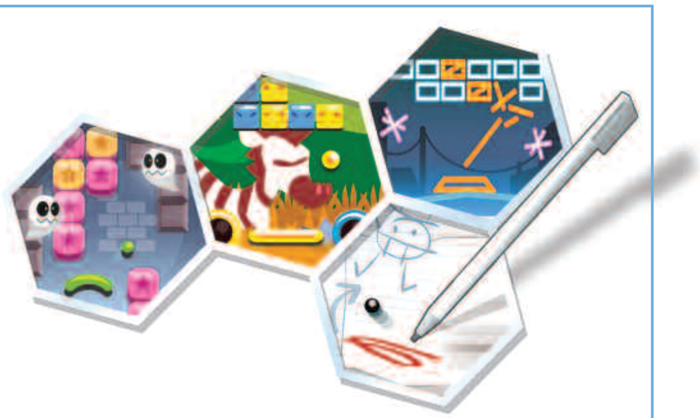
"Will make a little girl happy somewhere."
NGamer



Who Plays What?

Gender split of game players in US	%
Male	62
Female	38

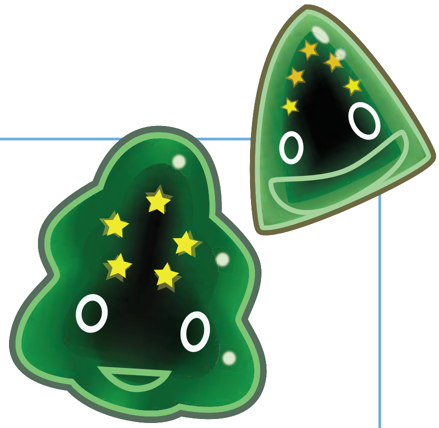
Source: Entertainment Software Association



Innovation			Development		Final Stage	
Concept	Design	Prototype	Pre-production	Production	Alpha	Gold Master

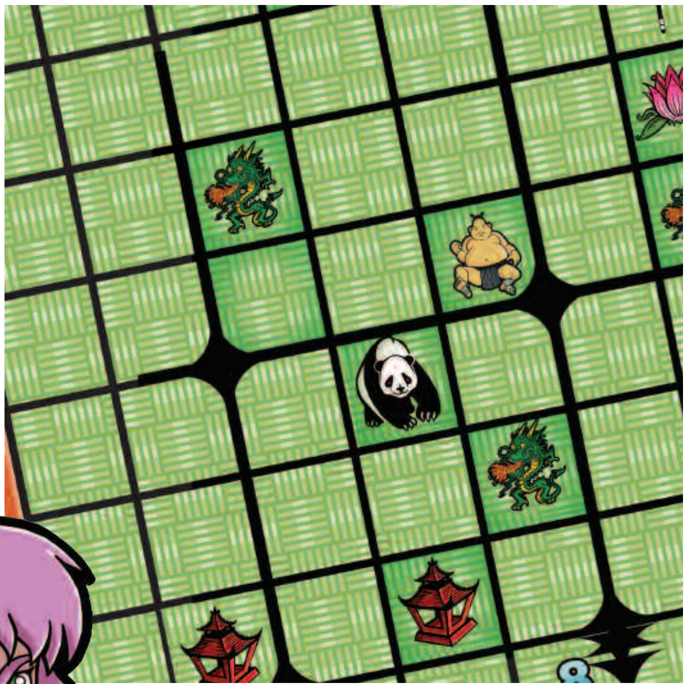
cost efficient

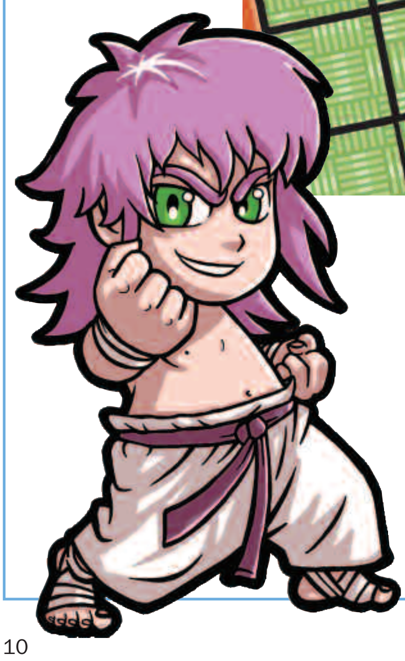
Our studios have continued to build high quality technology and game engines to maximise the efficiency and cost effectiveness of game development. The Group's centralised approach and standardisation of technology enables asset sharing using the same languages and tools across multiple locations, leveraging our size and creating higher production standards and improved return on investment. We outsource development where appropriate to do so and are expanding our capacity in cost efficient locations, such as our newly opened studio in Montreal. We are constantly refining our development capabilities and the Group is considering plans to derive additional revenues by licensing our proprietary technology to third parties in future.



new opportunities

The new generation of consoles and the growth of mobile and wireless devices allows for more flexible digital distribution models and opportunities to bring our existing IP portfolio to market through new channels. The future is online and connected, allowing for downloadable content, subscription based gaming, in-game advertising and on demand transactional and billing capabilities. More than 40% of total entertainment and media growth during the next five years will be generated through online and wireless technologies (source: PwC). Digital distribution of games improves gross margin and builds customer intimacy. Subscription based online communities and the emergence of 'massively multi-player online' formats centred on existing and new franchises will build further predictability into the Group's revenue streams. The Group's expansion into the 'New Media' markets of online, mobile and multi-player community-based gaming was accelerated during the year by the acquisitions of Rockpool Games, Bluefish Media and Morpheme.





Enter the world of *Zendoku*, a martial arts-themed, action puzzle adventure game based on the enormously popular logic game, Sudoku.

Business review

Chairman's statement

During the financial year, the Group experienced challenging trading conditions in a market strongly affected by the transition from old hardware platforms to next generation platforms. However, the Group continued to make progress through a number of strategic actions to ensure that we are well positioned for the future and the anticipated growth and pricing model on next generation consoles.

Results for the year

EBITDA for the year was £15.0 million (2006: £28.8 million). This is stated before exceptional items of £14.4 million (2006: £1.8 million), share based compensation payment of £2.2 million (2006: £4.4 million) and before the impact of exceptionally high price protection charges of £14.5 million (2006: £nil). Pre-tax loss was £30.0 million (2006: profit £8.1 million). In addition, as previously indicated, we have incurred significant charges in two important areas both strongly related to the consequences of the hardware transition.

As previously announced, the Group incurred exceptionally high price protection charges of £14.5 million. These charges, recorded as a deduction from revenue, arose from lower retail prices, particularly on PlayStation® 2 products.

The Group has carefully assessed its level of capitalised development costs. We have previously indicated that we would establish a provision of approximately £4 million against our expenditure on PlayStation® 3 products.

The Board continues to believe in the long-term commercial success of PlayStation® 3 but believes this may take more time than originally forecast by Sony. Accordingly the Board made a prudent provision of £13.8 million against the carrying value of certain related capitalised development costs. This was recorded as an exceptional charge.

The Board is of the opinion that the key driver to the acceleration of the installed base of PlayStation® 3 is the price of the hardware. The Board welcomes the recent price cut announced by Sony in October 2007 and continues to monitor the commercial success of the Group's products on this platform.

Update on potential offer

On 4 September 2007 we announced that we had received an approach regarding a possible offer for the Company. Since that time, we have received further approaches and discussions are ongoing with a number of potential acquirers. At the date of this Annual Report, this remains the case. There remains no certainty that any offer for the Company will be made or as to the terms of any such offer were one to be made. A further announcement will be made in due course.

Board changes

As the Group continues to grow we have recognised the need to expand the senior management team. Accordingly I am delighted that Phil Rogers, who joined the Group in February 2007 as Corporate Development Director, has been promoted to the Board as Chief Financial Officer replacing Rob Murphy, who becomes Managing Director – Studios. Phil was previously Vice-President of Corporate

Pony Friends
Take your pony out and explore over 15 different trails trekking through mountains, wetlands, farmland, towns, forests, along beaches and more. Daily play will ensure that your pony is the prettiest, healthiest, fastest, most talented, and best pony, scooping you first prize in the prestigious 'perfect pony competition'.

Developed by Tecmo's Team Ninja, the critically acclaimed *Ninja Gaiden* series has been lauded as one of the most intense and exciting action video games ever created. *Ninja Gaiden Sigma* is the first next-generation game in the series.

"It's one of the best games of all time."
Official PlayStation® Magazine

"*Ninja Gaiden* is just something that no self-respecting action gamer should be without."
GamesTM

"This is an absolutely essential purchase."
Play Magazine

Development at Electronic Arts and is a chartered accountant.

Bill Ennis, formerly Commercial Director, becomes Managing Director – Publishing. These changes were effective from 27 September 2007.

Strategic actions

Despite challenging trading conditions, the Group continued to make strong strategic progress during the financial year.

We completed a series of agreements with Warner Bros. Entertainment, one of the world's leading media companies. Under these arrangements, Warner Bros. has made a significant investment of £44.5 million in the ordinary share capital of the Company and we have entered into a series of licensing arrangements with Warner Bros. to create and publish games based on a series of their intellectual property – including *Batman*, *Looney Tunes* and the Hanna-Barbera catalogue. The first phase of these titles is now in production. The first of these titles will be released in 2008.

We have grown our New Media division through the strategic acquisitions of Rockpool Games, Bluefish Media and Morpheme. These acquisitions increase our scale in online and mobile gaming and distribution.

We have invested £68.5 million in new products and technologies to increase our product pipeline and improve the long-term efficiency of our studios. We have increased our focus on the highly successful Nintendo Wii and DS platforms and have a substantial pipeline of both published and distribution titles planned for these platforms for the year ahead.

We opened a new development studio in Montreal, demonstrating our commitment to expand our development resources in cost-effective locations. Montreal is already benefiting from our strategy of technology sharing. During the past three months we have also established an operating base in China to further our strategy of utilising cost effective outsourcing.

During the year our recently established studio in Budapest enjoyed number one chart success with its first release *Battlestations: Midway*.

A recent report from PwC's Global Entertainment Outlook predicts the global video games market to grow from $27 billion in 2005 to $46 billion in 2010. We believe that through our investments and strategy we are well positioned to take full advantage of this growth.

Tim Ryan
Chairman
7 December 2007

Ruthless real world action in an explosive two-man first person shooter *Conflict: Denied Ops* from the award-winning developer, Pivotal Games.

Chief Executive's statement

Our results for the year reflect the trading conditions experienced as a result of the transition from old platforms to next-generation platforms. Exceptionally high price protection charges and changes to our release schedule resulted in revenues and EBITDA being below our original expectations.

From an overall market perspective, the past 12 months have confirmed the changing ways in which people purchase and play games, the platforms on which they play them and a significant expansion of the age range and interests of game players.

It was a year which confirmed that the transition which is currently being experienced by the video games industry is much more than simply a console upgrade; it is an opportunity to introduce new games and gaming genres, develop games for previously untapped audiences, deliver games in new and innovative ways to the end consumer and expand the business with better potential margins.

To address this market backdrop over the past 12 months the Group has made good progress in making sure we are well positioned to exploit the opportunities of being a global publisher of interactive entertainment software.

We have increased our focus on Nintendo Wii and DS platforms. We recently announced plans to release 30 new titles for these platforms by the end of the calendar year 2008. An example of our success on these platforms is *Pony Friends*, which was launched in May and illustrates our ability to create new franchises for Nintendo's younger and broader audience. This product has shipped in excess of our original expectations and marks the beginning of another new franchise for the Group.

We recently released *Kane & Lynch: Dead Men* on 13 November in the US and 23 November in Europe. With the movie rights already optioned by Lionsgate Films, this is a hugely anticipated title which we believe will prove to be a multi-million unit franchise from our acclaimed studio Io Interactive, creators of *Hitman*.

We also recently released the Nintendo Wii and Xbox 360 versions of *Tomb Raider Anniversary* as a pre-Christmas launch.

Our commitment to invest in technology, expand our studios and New Media group and broaden our product portfolio – through both expanding our wholly-owned original intellectual property and building strategic partnerships with companies such as Warner Bros. – demonstrates our commitment to long-term growth and building shareholder value.

Results to 30 June 2007 – Overview

Total revenues for the year were £144.0 million, down 20% compared to prior year. However, these revenues are stated after £14.5 million of exceptionally large price protection charges and therefore on an adjusted basis, revenues were £158.5 million, a decrease of 12% compared to 2006.

Just Cause, *Tomb Raider Anniversary* and *Battlestations: Midway* were the largest contributors to the results of our Publishing division.

Tomb Raider Anniversary celebrated ten years of our world-leading franchise with a number one hit and 1 million units shipping on launch.

We successfully launched new titles, *Just Cause* and *Battlestations: Midway*, and both

Bringing the *Highlander* universe to life on next-generation gaming consoles. *Highlander* is an exciting project in the pipeline.

Championship Manager 2008 **allows you to manage your club to glory, dealing with everything from tactics and training to transfers – everything you would expect a real-life football manager to do without owning a sheepskin coat.**

Group revenues arose from the following sources:

	12 months to 30 June 2007 £m	12 months to 30 June 2006 £m
Published products	**75.2**	145.3
Distribution	**60.1**	28.6
Licensing and New Media	**8.7**	5.2
	144.0	179.1

These revenues arose from the following unit sales:

	12 months to 30 June 2007 Units (m)	12 months to 30 June 2006 Units (m)
Published products	**8.3**	9.4
Distribution	**6.4**	2.5
	14.7	11.9

became number one hits. Over 1 million units of *Just Cause* were shipped during the year. We launched *Battlestations: Midway*, a title developed by our Budapest studio, in February. Importantly, both titles are wholly-owned intellectual property, both of which have sequels in development and we believe both titles have the potential to be long-term franchises.

The largest contributor to distribution revenues was continued sales of *Lego Star Wars*. In addition, sales of *Justice League Heroes*, distributed by the Group on behalf of Warner Bros., were strong.

SCi made a gross profit of £57.0 million for the financial year which was 40% of revenue. This compares to a gross profit of £103.8 million or 58% of revenue, in the prior year. The reduction in gross profit was due to a much higher proportion of distribution revenue, on which the Group earns lower margins, plus pricing pressure reflected in an exceptionally high charge for price protection.

Total development costs charged to the income statement for the year were £32.8 million (2006: £28.1 million). This represents 44% of revenue from published products, compared to 19% in the previous year. Total charges include an exceptional provision of £13.8 million against capitalised development costs. This includes provision against our investment in certain PlayStation® 3 products and technologies.

The Group spent £13.7 million (2006: £19.4 million) on advertising in the financial year. Advertising expenditure is broadly proportional to planned revenue. Advertising costs include all external costs incurred to promote the sale of the Group’s products. All such costs are expensed as incurred.

The charge for other administrative overhead costs of £41.3 million (2006: £47.8 million) includes £15.3 million (2006: £14.8 million) of depreciation and amortisation charges and £2.2 million (2006: £4.4 million) of share based

***Monster Lab* is a role playing game/action hybrid where players conduct outrageous experiments and venture out on wild quests and challenges, creating their very own mad monster to battle against evil monster minions or friends online.**

Command Spartan, Persian and Egyptian armies across 27 challenging missions to conquer the ancient world in this real time strategy game of epic proportions.

compensation. Therefore the underlying level of cash based overheads was £23.8 million (2006: £28.6 million). The underlying level of overhead expenditure has remained relatively constant. However, the Group has classified approximately £6 million of costs including the cost of Quality Assurance as development rather than administration.

After allowing for all exceptional costs plus non-cash amortisation charges, the loss before tax was £30.0 million (2006: profit before tax £8.1 million).

Our achievements

We remain focused on delivering solid, long-term shareholder value through growing our player base, improving our customer offerings, investing in intellectual property and broadening our product base. We believe financial year 2007 can be summarised as a year in which we made good progress against these objectives and is a year in which we made important strategic investments.

Our success with *Pony Friends* on Nintendo's handheld DS device illustrates our ability to create new franchises for a younger and broader audience. Following the release in May in Europe and June in North America, *Pony Friends* had shipped 300,000 units by the financial year-end, ahead of original expectations, and has continued to sell extremely well post year-end establishing another wholly-owned original intellectual property.

Nintendo's Wii and DS platforms have revolutionised gaming with their innovative and simple approach to entertaining. Designed for a pick-up-and-play gamer, the success of these platforms has opened up our market to new audiences. The creation in 2007 of our dedicated Casual Games division enables us to focus on driving growth from this consumer trend. There are plans for a Nintendo Wii version of *Pony Friends* and the Group will have released ten titles for the Nintendo platforms by Christmas 2007 and currently has over 20 products for Nintendo DS and Wii scheduled for release in the 2008 calendar year.

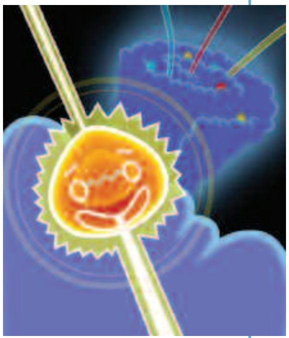
Our New Media group's acquisitions this year of Rockpool Games, Bluefish Media and Morpheme demonstrates our belief that online connectivity and mobile games represents a significant opportunity to grow our revenue streams over the next cycle.

We believe that the growth and success of broadband and mobile infrastructures will present many opportunities including extending the life span of our products, enabling us to offer new content and sell to consumers through online micro-transactions and extending game-play across different devices.

Battlestations: Midway and *Just Cause* utilised the online capability of Microsoft's Xbox Live Marketplace to good effect in 2007; *Battlestations: Midway* generated over 1 million downloads of additional online content from the demo, wallpapers and videos and the *Just Cause* single player game-demo generated over 800,000 downloads itself.

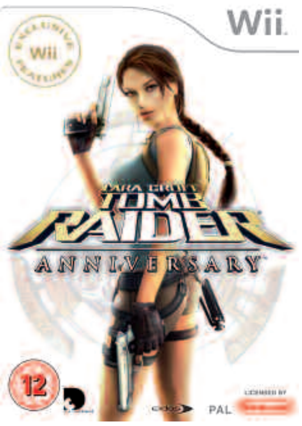
We have invested across our core business in 2007

We have continued to expand our internal development capabilities with the opening of a studio in Montreal and invested further in technology to keep us at the cutting edge of next-generation game development. Today



A highly original handheld game for Nintendo DS, *Prism: Light the Way* was released globally to much critical acclaim with it's challenging light based puzzle gameplay.

Released on Nintendo's groundbreaking console comes Lara's most innovative adventure to date – *Tomb Raider Anniversary*. Fully exploiting the Wii's unique controllers, players will control Lara like never before.



our development processes are benefiting from a backbone of shared technologies, engines and game assets which we will look to further enhance over the coming year.

We have over 600 employees within in-house development and we expect to continue to build our studios in terms of size and skills, especially in locations that allow us to keep development costs down.

We have invested significantly in the pipeline of products for 2008 and beyond and we are looking forward with much anticipation to the sequels to *Just Cause* and *Battlestations: Midway*, which are already in development, and new versions of world-leading franchises *Tomb Raider* and *Hitman*. We recently launched brand new IP into the market in the form of *Kane & Lynch: Dead Men*, which generated a considerable amount of press interest prior to the November launch.

Our distribution business provides a low-risk, profitable source of revenue that makes most effective use of our global sales and distribution infrastructure. Over the year we secured agreements with numerous companies to distribute strong third-party product including *Justice League Heroes* from Warner Bros., *Bionicle Heroes* from Travellers Tales, *Ninja Gaiden Sigma* from Tecmo and through Proein, our 100% owned Spanish subsidiary, *Final Fantasy XII* from Square Enix.

We created some winning partnerships with world leading media groups. In early 2007, production began on the new *Hitman* film from 20th Century Fox, starring Timothy Olyphant and Dougray Scott. This was shot on location in Europe and was released worldwide in November 2007.

Our priorities and outlook

The investment in our business over the past 12 months gives us a strong product pipeline for financial year 2008 and well into 2010. Our publishing business is planning 13 new releases on over 34 platform variant products in the next 12 months compared to 12 new releases in FY07. We are also scheduled to more than double the number of games launched by our New Media and Casual Games divisions. We are also actively exploring online and massively multi-player online ("MMO") opportunities for our IP in China.

Over the next year we believe we will see further expansion of our target audiences and really see the power of next-generation platforms. Therefore our future priorities are set clearly on establishing our new games firmly in the market place and appealing to this expanding demographic across a broader platform base. We will also continue to build on our existing franchises of 13 intellectual properties which have sold over 1 million units each, including the *Tomb Raider* franchise which has now sold over 31 million units and whose storyline and game innovation continues to evolve.

Our staff are fundamental to the success of the business and I would like to take this opportunity to thank all our employees for their contribution and commitment over the past 12 months.

Jane Cavanagh.

Jane Cavanagh
Chief Executive
7 December 2007

KANE & LYNCH DEAD MEN™

***Battlestations: Midway* launched in February 2007 to much critical acclaim as the first game of its kind to successfully mix 'real-time strategy' and third-person action on an epic scale.**

Operating and financial review

Results from operations

The Group regards earnings before interest, tax, depreciation and amortisation ("EBITDA") which is detailed in note 9, as a key measure of profitability. EBITDA provides a key measure of the Group's operating performance and excludes non cash charges such as depreciation and amortisation. It is the measure most commonly used by the financial community to assess the Company's performance.

Adjusted EBITDA before exceptional items and share based payment compensation for the 12 months to 30 June 2007 was £15.0 million (2006: £28.8 million). Loss before tax was £30.0 million (2006: profit £8.1 million). In arriving at the loss before tax the Group incurred certain significant exceptional items which arise principally from the transition to new hardware formats in the video game industry.

Revenue

Total revenues were £144.0 million. Group revenues arose from the sources indicated in Table 1 opposite.

Total revenues includes sales of games to retailers and distributors at invoiced amounts. Provisions for future returns or price protection are deducted from total revenues.

Revenue from published products

The Group launched 12 new titles in the financial year (see Table 2 opposite) which, together with back catalogue sales, generated £75.2 million of revenues on sales of 8.3 million units. This compared to revenue of £145.3 million across nine titles selling 9.4 million units in 2006. Compared to 2006, unit sales fell, reflecting the lack of a major multi-platform release. The largest unit selling titles in 2007 were *Tomb Raider Anniversary* on PS2 and PC (1 million units) and *Just Cause* on PS2, PC and Xbox 360 (1 million units). This compares to *Tomb Raider: Legend* on PS2, PC, Xbox, DS and Gameboy Advance (2.9 million units) and *Hitman: Blood Money* on PS2, PC and Xbox 360 (1.4 million units) in 2006. Further platforms of *Tomb Raider Anniversary* have been released in the 2008 financial year.

Average revenue per unit fell to £8.89 per unit in 2007 from £15.46 per unit in 2006. The significant fall reflects a decline in retail prices on hardware platforms, particularly the PS2, which are declining in advance of the launch of a new generation of hardware.

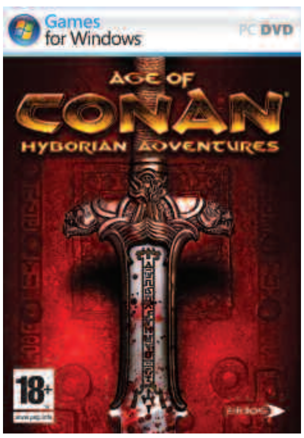
Revenue from distribution products

The Group acted as global distributor for four new products in the financial year which can be seen in Table 3 opposite.

In addition we continued to earn significant revenue from the distribution of *Lego Star Wars*.

Distribution revenues represent amounts invoiced to retailers or other distributors for products distributed under contract for third parties.

Distribution revenues increased to £60.1 million from £28.6 million in 2006, reflecting a significant growth in the volume of distribution products. Unit sales of distribution products grew to 6.4 million units from 2.5 million units in 2006. The largest selling products were *Lego Star Wars* (1.9 million units) and *Justice League Heroes* (1 million units). Average revenue per



One of the most eagerly anticipated massively multi-player online ("MMO") titles since *World of Warcraft*, *Age of Conan* offers a unique mature take on the traditional MMO games and boasts unsurpassable visual quality in its execution.

Table 1

Group revenues arose from the following sources:

	12 months to 30 June 2007 **£m**	**%**	12 months to 30 June 2006 £m	%
Published products	**75.2**	**52**	145.3	81
Distribution	**60.1**	**42**	28.6	16
Licensing and New Media	**8.7**	**6**	5.2	3
	144.0	**100**	179.1	100

Table 2

New product releases	PSP®	PS2	Xbox	Xbox 360	PC	Wii	DS	GC	GBA
Reservoir Dogs		>	>		>				
Just Cause		>	>	>	>				
Bionicle Heroes		>	>	>	>	>			
Tomb Raider: Legend							>	>	>
Championship Manager 2006/7	>	>		>	>				
Who Wants to be a Millionaire?	>	>			>				
Battlestations: Midway				>	>				
Zendoku	>						>		
Chili Con Carnage	>								
Tomb Raider Anniversary		>			>				
Diner Dash	>						>		
Pony Friends							>		

Table 3

Distribution products	PSP®	PS2	Xbox	Xbox 360	PC	Wii	DS	GC	GBA
Bionicle Heroes							>		>
Justice League Heroes		>	>		>				>
Tom and Jerry							>		
300: March to Glory	>								

***Top Trumps Doctor Who* brings one of the most successful science fiction characters into the digital arena, structured and complimented by the classic card game, *Top Trumps*.**

distribution unit fell to £9.39 per unit from £11.44 per unit in 2006, reflecting a decline in retail prices.

Revenues from Licensing and New Media

Licensing revenue derives from the exploitation of the Group's intellectual property in areas other than the direct sale of games. This includes revenue from film rights, merchandising and the sale of advertising rights in games. New Media revenue arises from the sale of products developed for mobile phones and other on-line platforms including digital TV.

Revenue from Licensing and New Media grew to £8.7 million in 2007 from £5.2 million in 2006. This primarily reflects growth in New Media revenue as the Group seeks to expand this area.

Gross profit

The Group made a gross profit of £57.0 million, 40% of revenue, (2006: £103.8 million, 58% of revenue). The decrease in profitability reflects the performance of the Group's published products versus the increased importance of distribution products.

Gross profit represents turnover less the direct costs of selling a game. Direct selling costs principally comprise the cost of manufacturing and delivering physical copies of the finished product including the disc, box and packaging. They also include royalties to third parties in respect of products distributed by the Group.

The gross profit on new published products was approximately 58% of revenue falling from 66% in 2006. This reflects the price decline in the retail prices of products sold on the Playstation® 2 and Xbox platforms.

The gross profit in distribution of third party products was approximately 14% of revenue (23% in 2006). The gross profit on Licence and New Media income was 98% (2006: 94%) of revenues.

Development costs

Development costs before exceptional items charged to the income statement for the year were £19.0 million (2006: £27.0 million). In common with the majority of global video game publishers, and consistent with the requirements of IFRS, development costs are capitalised during the course of production from the point at which a product is considered to be technically and commercially feasible (see note 1, page 45). The capitalised amounts are shown as capitalised development costs (non current, intangible assets) in the balance sheet. Capitalised development costs are charged to the income statement from the games release over the period in which the Group reasonably expects to earn revenues from the product.

The amortisation of development costs represented 25% of revenue from published products compared to 19% in 2006.

In addition the Group incurred exceptional development charges of £13.8 million (2006: £1.1 million). The Group has carefully assessed its level of development expenditure, having invested heavily in new products and technology for next generation products, with a particular emphasis on Playstation® 3. We are also investing in a development infrastructure that will enable this investment to be leveraged across

Wacky Races™

Join Dick Dastardly and the gang in all the racing fun and madness, *Wacky Races* style – coming in 2008.

***Kane & Lynch* is a cinematic crime drama that tells a raw and gritty tale of a flawed mercenary and a medicated psychopath working together but hating each other every step of the way.**

"...treacherous, double-crossing brilliance."
Kane & Lynch – 5 out of 5 – Game of the Week
Nuts Magazine

"Some of the most intense and dramatic action we've seen in a video game."
Play Magazine

"...grabs you by the eyeballs and drags you into the criminal underworld in all it's gritty glory."
T3 Magazine

multiple products and studios. All of these actions will be of long-term value to the Group. However, given the early stage of the next-generation hardware cycle, the Board has determined that it is prudent to make a provision of £13.8 million (2006: £1.1 million) against the carrying value of capitalised development costs. This is recorded as an exceptional charge. In 2006 these costs comprised further costs incurred on a loss-making development contract entered into by Eidos prior to acquisition.

During the 2007 financial year the Group spent £68.5 million (2006: £57.4 million) on product development, building the investment in products and technology that will benefit future financial years. This level of investment has enabled the Group to significantly expand its future pipeline.

At 30 June 2007 the Group had capitalised development costs of £81.8 million (2006: £46.1 million). The major titles in development at 30 June 2007 include *Kane & Lynch*, *Conflict: Denied Ops*, *Highlander*, *Shellshock 2*, *Just Cause 2* and *Tomb Raider 8*.

Approximately 31% of capitalised development costs reflect either engine technology that will benefit studios over the life of a hardware cycle or re-usable assets specific to a franchise that reduce future development costs.

Advertising costs

The Group spent £13.7 million (2006: £19.4 million) on advertising in the financial year. Advertising expenditure is proportional to planned revenue. Our overall spend in 2006 was planned to re-establish key franchises such as *Tomb Raider* and *Hitman*.

Advertising costs include all external costs incurred to promote the sale of the Group's products. The largest proportion of advertising costs is TV, radio, outdoor, print and internet advertising. Advertising costs also include promotional and PR campaigns. All advertising costs are expensed as incurred.

Administrative costs

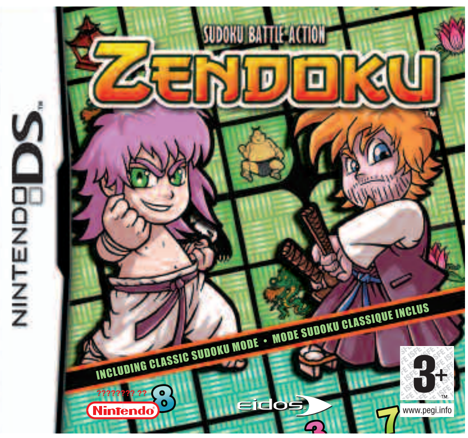
Administrative costs comprise all the costs of running the Group's corporate, publishing and distribution functions. These include staff and associated costs employed in sales, distribution, marketing, PR, IT, customer service, new media, finance, HR, legal and licensing.

Excluding exceptional charges, total administrative costs were £41.3 million (2006: £47.8 million). The charge for administrative expenses of £41.3 million includes £15.3 million of amortisation and depreciation charges and £2.2 million of share based payment compensation. Therefore the underlying level of cash based overheads was £23.8 million (2006: £28.6 million).

The Group incurred a £2.2 million (2006: £4.4 million) accounting charge to expense the Group's share option plans.

At 30 June 2007 the Group had 228 staff in sales, marketing and administration, compared to 240 at 30 June 2006.

The Group incurred exceptional charges of £0.6 million relating to the settlement of trade disputes. In 2006 the Group incurred a charge of £0.7 million relating to restructuring costs.



Zendoku **blends exciting puzzle battle action with addictive and immersive Sudoku gameplay (with a light-hearted martial arts theme).**

Depreciation
The charge for depreciation of plant, property and equipment and intangible software amortisation was £1.6 million in the financial year (2006: £1.8 million). This is stated after the deduction of £0.9 million (2006: £0.8 million) relating to depreciation incurred by internal development studios, and treated as capitalised development cost.

Acquired intangible assets and amortisation
Under IFRS the Group is required to value intangible assets purchased through an acquisition.

The charge for amortisation of acquired brands and technology intangible assets increased to £11.0 million from £10.6 million in 2006.

After accumulated amortisation of £24.1 million, we show the net value of £102.7 million as an intangible asset in the Group's balance sheet.

The brands valued in the balance sheet include seven titles with lifetime sales of 1 million units or more. These are *Tomb Raider*, *Hitman*, *Championship Manager*, *Thief*, *Deus Ex*, *Legacy of Kain* and *Shellshock*. In addition the *Conflict* series and *Carmageddon* have also each sold over 1 million units. However their values are excluded from intangible assets as they have been internally developed.

The value of the intangible assets is amortised over 15 years for brands and eight years for technology, representing the estimated useful economic life of the intangible assets.

Loss before tax
Loss before tax was £30.0 million (2006: profit £8.1 million). This is stated after depreciation and amortisation charges of £15.3 million. These charges principally arise because of the amortisation of intangible assets described above.

Taxation
There is a net tax credit of £1.9 million for the year (2006: credit £5.4 million). The net tax credit comprises an overseas tax credit of £2.1 million and a deferred tax change of £0.2 million.

At 30 June 2007 the Group had substantial tax losses available to carry forward and set off against future taxable profits, subject to agreement with the relevant tax authorities.

Loss/earnings per share
Basic loss per share was 35.3p (2006: earnings 18.5p).

Goodwill
Goodwill relates mainly to the acquisitions of Eidos and the Group's acquisition of the remaining 25% of Proein. The net book value of goodwill at 30 June 2007 was £2.7 million (2006: £4.7 million). During the year the Group fully wrote off all remaining goodwill relating to the acquisition of Pivotal as detailed in note 11 to the accounts. There is no contingent consideration relating to any of these acquisitions (2006: £nil).

Hitman: Blood Money **is the most recent instalment of Agent 47's exploits as a professional assassin. Released to critical acclaim the game topped the UK charts.**

Working capital

At 30 June 2007 the Group had £31.4 million of cash and no borrowings.

The Group started the year with £37.2 million of cash and generated £25.8 million (pre-tax) from operations. The closing cash figure of £31.4 million reflects substantial investment in future products.

During the year the Company raised £44.1 million (net of costs) from the issue of new ordinary shares to Warner Bros. The Group plans to invest this cash into new growth areas and, at 30 June 2007, had invested £3.9 million in New Media acquisitions.

The Group has new banking facilities of up to £20 million with Lloyds TSB. This provides flexibility to the Group, including the opportunity to respond quickly to product and licence acquisition opportunities, and to cover short-term working capital requirements.

Pensions

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

Financial instruments

During the year, the Group's financial instruments, other than derivatives, comprised cash, overdrafts and various items such as trade debtors and creditors that arise directly from operations. The main purpose of these financial instruments is to finance the Group's operations. The Group also enters into derivative transactions in the form of foreign currency contracts in order to manage the currency risk arising from the Group's operations. The Group's policy is, and was throughout the period under review, not to trade in financial instruments. The main risks arising from the Group's financial instruments are liquidity risk, credit risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks on a regular basis.

Liquidity risk

The Group has in place bank facilities of up to £20 million with Lloyds TSB which will cover short-term working capital needs in periods where there are a number of product launches.

Credit risk

The Group's revenues are principally derived from sales to retailers and distributors. The amounts due from any particular retailer or distributor may be material, particularly following major product releases. The Group's policy is to only extend credit to companies with a strong credit rating and to obtain credit insurance to protect against the risk of default.

Breaking new ground in mobile phone gaming, Eidos has adapted the full version of the original PlayStation® *Pandemonium* game for next generation mobile phone handsets.

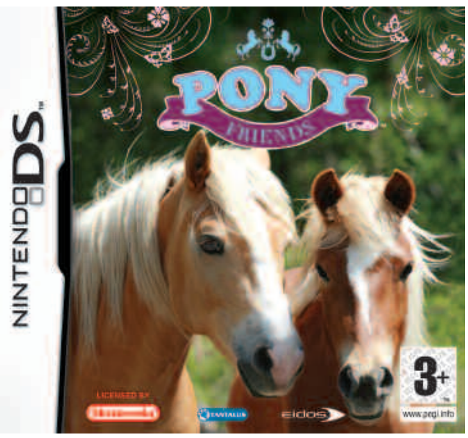
Vast and colourful environments allow players to experience the struggle between cat and mouse that fans have enjoyed for decades. References from the classic *Tom and Jerry* episodes are incorporated along with an original art style in the game.

Foreign currency risk
The Group receives significant revenues in either euros or US dollars. The Group also has significant costs in each of these currencies relating to overseas offices, the manufacture of finished products and the development of new games. The Group seeks to balance the flows of currency across countries to minimise any imbalance of foreign currency receipts and payments.

Key performance indicators
The directors monitor a number of financial metrics and key performance indicators (KPIs) for the Group, including:
> Sales units and gross profit of each product
> Average selling prices
> Use of price protection provision
> Chart positions
> Review scores
> Development costs and pipeline
> Contribution by title

In addition, the directors receive information on non financial metrics such as reports from the Group's quality assurance function and the results of focus groups.

Pony Friends **has been a hugely successful title for the Group and continues to sell strongly as we approach Christmas 2007. A sequel is already in the making.**



Risks and uncertainties
Risks to the business include the risk of development delays and cost overruns, competitive products, our own product performance, the need to maintain sufficient working capital, the loss of key personnel, delays in the introduction of new hardware platforms, associated lead times to develop games for new hardware and increased regulation of products.

The directors regularly monitor all these risks and uncertainties and appropriate actions are taken to mitigate the risks or their potential outcomes.

Employee and environmental matters
The Group's employment policies and environmental policies are set out in the corporate responsibility statement on page 32.

Phil Rogers
Chief Financial Officer
7 December 2007

The very first bat-and-ball game designed especially for the Nintendo DS, *Nervous Brickdown* features eye-catching graphics and takes full advantage of the DS' dual screens, stylus, microphone and Wi-Fi capability

Directors, officers and advisers

Tim Ryan
Non-executive Chairman
Tim Ryan joined the Board as a non-executive director on 19 October 2001 and was appointed as Chairman on 30 June 2006. Tim has considerable experience of corporate communications. His former positions include head of corporate and investor relations at SkyePharma PLC, one of the world's leading drug delivery companies, and director of corporate communications at NTL. He is currently chairman of Bell Pottinger International.

Jane Cavanagh
Chief Executive
Jane Cavanagh founded SCi Entertainment in 1988. In May 2005 SCi Entertainment became the largest publisher of entertainment software in the UK following the successful acquisition of Eidos plc. Jane was awarded an OBE in the 2007 New Year's honours list for services to the computer games industry.

Bill Ennis
Managing Director – Publishing
(formerly Commercial Director until 27 September 2007)
Bill Ennis was appointed to the Board on 3 May 1996 having previously spent ten years in investment banking and two years in sales and marketing with DEC. He has considerable experience in the industry and is a former director of the Entertainment Leisure Software Publishers Association (ELSPA).

Rob Murphy
Managing Director – Studios
(formerly Chief Financial Officer until 27 September 2007)
Rob Murphy was appointed to the Board on 21 April 1997. Before joining the Company he was a partner in the audit and business advisory division of Arthur Andersen in London. He is a chartered accountant.

Phil Rogers
Chief Financial Officer
(appointed 27 September 2007)
Phil Rogers joined the Group in February 2007 as Corporate Development Director, and was appointed to the Board as Chief Financial Officer replacing Rob Murphy on 27 September 2007. Phil was previously Vice-President Corporate Development at Electronic Arts and is a chartered accountant.

Roger Ames
Non-executive Director
Appointed to the Board on 25 September 2006, Roger Ames has extensive experience of the entertainment industry having previously held positions as executive vice-president of Polygram and president of Polygram Music Group in 1996. Subsequently he was chairman and CEO of Warner Music Group from 1999 to 2004. Roger is currently CEO of EMI Music North America.

Nigel Wayne
Non-executive Director
Nigel Wayne joined the Board on 20 July 2001 and was appointed senior independent director in 2004. He is a chartered accountant with considerable experience of advising and funding growing companies in the technology and media sectors. A former finance director of SCi Games Limited until 1994, he has significant experience of the games industry.

Don Johnston
Non-executive Director
Don Johnston joined the Board on 26 March 2007 and is Managing Director and Chairman of Deutsche Bank's European Mergers & Acquisitions business. He has over 28 years' experience in M&A advisory work and general corporate finance services. Previously he was a board director of Bankers Trust International where he ran BT Wolfensohn, the Bank's European M&A practice and acted as co-head of Investment Banking in Europe.

Company Secretary
Anthony Price

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London EC2V 7AE

Directors' report

The directors present their annual report on the affairs of the Group, together with the accounts and independent auditors' report, for the 12 months ended 30 June 2007.

Principal activities and business review

The principal activities of the Group and the Company are the development, publishing, licensing and distribution of entertainment software. A review of the Group's performance during the 12 months to 30 June 2007, including financial performance, likely future developments, discussion of key performance indicators, key risks and uncertainties facing the Company, the prospects and position of the Company at the year-end and information that fulfils the requirements of the Business Review, is set out in the Chairman's statement, the Chief Executive's report, and the operating and financial review on pages 12 to 24. Principal subsidiaries and joint ventures are listed in note 14 to the accounts on page 60.

Results and dividend

The results for the 12 months to 30 June 2007 are shown in the consolidated income statement on page 40. No dividend has been paid or declared for the year (2006: £nil).

Financial instruments

The Group's policy on the use of financial instruments is set out in note 28.

Information required by Section 922 of the Companies Act 2006

Details of the Company's issued share capital are set out in note 23. All of the Company's issued ordinary shares are fully paid up and rank equally in all respects. The rights attached to them, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association ("the Articles"). There are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them, except (i) where the Company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Companies Act 2006 or (ii) where their holder is precluded from exercising voting rights by the FSA's listing rules or the City Code on Takeovers and Mergers.

Rules about the appointment and replacement of directors are set out in the Articles. Changes to the Articles must be approved by shareholders passing a special resolution. The directors' powers are conferred on them by UK legislation and by the Articles. The directors currently have shareholder authority to buy back up to 3,808,119 ordinary shares of the Company during the period up to the forthcoming Annual General Meeting ("AGM"). There are no agreements between any Group company and any of its employees or any director of the Company which provide for compensation to be paid to the employee or director for termination of employment or for loss of office as a consequence of a takeover of the Company. Details of significant agreements to which Group companies are a party containing provisions which would be triggered as a consequence of a takeover of the Company, and details of the effect of such provisions, are set out below.

Significant agreements – change of control

The following significant agreements contain certain termination and other rights for our counterparties upon a change of control of the Company.

The Group is party to a series of licensing agreements with Warner Bros. Interactive Entertainment ("Warner Bros.") providing the right to develop, publish and distribute worldwide up to twenty games based on certain licensed intellectual properties over various hardware platforms. The agreements provide Warner Bros. with a right of termination upon a change of control in the event that a controlling interest in the Company passes to a party that competes with Warner Bros., provided that the games have not reached a specified development stage.

Publisher license agreements with Microsoft Corporation and Nintendo Co. Ltd provide that consent is required from the licensor to assign the agreements to a third party upon a change of control. A publisher licence agreement with Sony Corporation ("Sony") provides the licensor with a right of termination upon a change of control under certain specific limited circumstances including in the event that a controlling interest in the Company passes to one of a specified list of parties that is in dispute with, or competes with, Sony's PlayStation® business.

The SCi 1996 Share Option Plan and the SCi Employee Equity Incentive Plan (a cash settled equity incentive plan) contain provisions relating to a change of control under which outstanding options and awards would normally vest and become exercisable on a change of control, subject to the detailed rules of the plans and the satisfaction of any performance conditions at that time.

Directors

The names and brief biographical details of the current directors are set out on page 25. All the directors served throughout the period under review other than Roger Ames, Don Johnston and Phil Rogers who were appointed to the Board on 25 September 2006, 26 March 2007 and 27 September 2007 respectively.

Nigel Wayne and Jane Cavanagh retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election. Don Johnston and Phil Rogers will retire at this year's AGM having been appointed since the last AGM and, being eligible, offer themselves for election. Details of directors' holdings of options over ordinary shares are set out in the directors' remuneration report on page 37.

Directors' responsibilities
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985. The directors are responsible for preparing the Annual Report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the Group in accordance with IFRS as adopted by the European Union and Article 4 of the IAS Regulation. The directors have chosen to prepare financial statements for the Company in accordance with UK GAAP.

Group financial statements
International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. A fair presentation also requires the directors to:

> consistently select and apply appropriate accounting policies;
> present information, including accounting policies, in a manner that provides relevant, reliable, comparable an understandable information; and
> provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Parent Company financial statements
Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the year end. In preparing these financial statements, the directors are required to:

> select suitable accounting policies and then apply them consistently;
> prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;
> make judgements and estimates that are reasonable and prudent; and
> state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

Financial statements are published on the Group'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 Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' and officers' indemnity insurance
The Group has taken out an insurance policy to indemnify the directors and officers of the Company and its subsidiaries in respect of certain liabilities which may attach to them in their capacity as directors or officers of the Group, so far as permitted by law. This indemnity policy subsisted throughout the year and remains in place at the date of this report.

During the 2007 financial year the Company entered into separate indemnity deeds containing "qualifying third party indemnity provisions" (as defined at section 234 of the Companies Act 2006) with each person who is now a director, other than Phil Rogers, in respect of certain liabilities which may attach to him or her as a director or former director of the Company or of any of its subsidiaries. The Company will be entering into a similar indemnity deed containing qualifying third party indemnity provisions with Phil Rogers. All of these provisions remain in force.

Employees
The Group's employment policies and those regarding disabled persons are set out in the corporate responsibility statement on page 32.

Charitable and political donations
During the 12 months to 30 June 2007 SCi made charitable donations of £16,000 (2006: £10,400). No political donations were made in the year (2006: £nil).

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. Trade creditors of the Group at the year-end represented 20 days purchases (2006: 41 days). The Company had trade creditors of £0.6 million at the year-end (2006: £0.2 million) which represented 28 days purchases (2006: 15 days).

Substantial shareholdings
On 22 November 2007 the Company had been notified of the following interests in the ordinary share capital of the Company:

	Number	%
Thorson Investments Ltd	13,413,073	15.44
Time Warner Entertainment Ltd	8,860,897	10.20
Blackrock Investment Management (UK) Ltd	6,603,669	7.60
Credit Agricole Cheuvreux International Ltd	4,846,436	5.58
Pictet Asset Management	4,552,553	5.24
Legal & General Investment Management	3,949,896	4.55
ING Bank NV London	2,870,000	3.30

Directors' shareholdings
The directors who held office at 30 June 2007 had the following interests in the shares of the Company:

	30 June 2007 Number	30 June 2006 Number
Executive		
Jane Cavanagh	**4,819,630**	4,819,630
Bill Ennis	**259,449**	259,449
Rob Murphy	**83,772**	83,772
Non-executive		
Tim Ryan	**43,141**	43,141
Nigel Wayne	**11,176**	11,176
Don Johnston	**22,000**	–
Roger Ames	**–**	–

There have been no changes in the above shareholdings between 30 June 2007 and the date of these financial statements. The interests of the directors under the SCi 1996 Share Option Plan are shown in the directors' remuneration report.

Directors' statement as to disclosure of information to auditors
Each director in office at the date of this report confirms that (a) so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware, and (b) he has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

By order of the Board,

Anthony Price
Company Secretary
7 December 2007

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.

The following statement is intended to describe how the Group has applied the principles of the Combined Code on Corporate Governance published in July 2003 (the "Code"), which applied to the Group for the period under review.

Composition and operation of the Board

The Board currently comprises a non-executive chairman, three further non-executive directors and four executive directors. Brief biographical details of all the directors are set out on page 25.

During the year Roger Ames and Don Johnston were appointed as non-executive directors on 25 September 2006 and 26 March 2007 respectively. Phil Rogers was appointed as Chief Financial Officer on 27 September 2007. The Board intends to appoint a further non-executive director in due course. Nigel Wayne and Jane Cavanagh retire by rotation at the forthcoming Annual General Meeting ("AGM") and, being eligible, offer themselves for re-election in accordance with the Articles of Association. Don Johnston and Phil Rogers will retire at this year's AGM having been appointed since the last AGM and, being eligible, offer themselves for election.

The roles of Chairman and Chief Executive are held separately with a clear division of responsibility between them. Nigel Wayne is the senior independent non-executive director.

All the members of the Board are equally responsible for the management and proper stewardship of the Group and together bring a wide range of skills and international experience to bear on issues under consideration.

The Board has considered the independence of the non-executive directors and believes that they are currently independent of management and free from any material business or other relationship with the Company or the Group that could interfere with the exercise of their independent judgment. In this context the Board has considered the 20,000 share options awarded to Nigel Wayne and Tim Ryan in 2001 and has concluded that the awards have not adversely impacted their independent judgement after giving due consideration to the integrity, contribution and conduct of each of these directors.

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

The Board meets regularly throughout the year and more frequently where business needs require. The Board has a schedule of matters reserved to it for decision and the requirement for Board approval on these matters is communicated throughout the senior management of the Group. The schedule of matters reserved to the Board was reviewed and updated during the year and is available on the Company's website together with the terms of reference for each Board committee.

Matters reserved for the Board include approval of the Group's strategy, setting and monitoring performance against the annual budget, business acquisitions and disposals, material capital commitments, appointments to subsidiary company boards and commencing or settling material litigation. Prior to each meeting directors are sent an agenda together with additional information, including financial reports, as appropriate for the meeting.

Directors have access to the advice and services of the Company Secretary and may take, at the Company's expense, independent professional advice. The Board has adopted a training and induction policy which includes annual updates from the Group's corporate advisors and an induction process for new directors.

Performance evaluation

The Board is in the process of establishing a formal procedure, led by the Chairman, for the evaluation of the performance of the Board, its committees and individual directors.

Corporate Partners Ltd were engaged during the year to assist with this process, which initially focuses on the Board and committee structure and workings. This is facilitated by means of a detailed questionnaire distributed to all Board members, covering a wide range of matters including Board structure, composition and processes, communications with shareholders and corporate governance matters. The responses are then summarised for discussion amongst the Board, led by the Chairman, Tim Ryan. This process is ongoing and will be followed by performance evaluations of individual directors, once the current Board, including the three recently appointed directors, have had further opportunity to work together.

The performance of the executive directors is reviewed annually by the remuneration committee as part of the annual pay review process and determination of bonuses.

Board committees

The Board has delegated responsibility in a number of areas to three sub-committees with clearly defined terms of reference:

The audit committee

The audit committee meets at least twice a year to review the financial results, the Group's internal control systems and the findings of the external independent auditors. It also considers the Group's financial accounting procedures and policies as well as the cost-effectiveness, independence and objectivity of the external auditors by monitoring the level and appropriateness of any non-audit work provided by them.

The current members of the audit committee are Nigel Wayne (Committee Chairman), Don Johnston and Roger Ames. Nigel Wayne is a chartered accountant and has recent and relevant financial experience.

The remuneration committee

A description of the composition, responsibility and operation of the remuneration committee is set out in the directors' remuneration report on page 33.

The nomination committee

The nomination committee is responsible for reviewing the composition and structure of the Board and for recommending Board appointments and interviewing potential candidates. The committee meets on an ad hoc basis as required. The current members of the nomination committee are Tim Ryan (Committee Chairman), Roger Ames, Nigel Wayne, Don Johnston and Jane Cavanagh. The committee consults with the executive directors when considering appointments and external search agencies are consulted to ensure that a wide range of candidates can be considered.

Board and committee meetings

During the 12 months to 30 June 2007 there were six scheduled Board meetings, three audit committee meetings, five remuneration committee meetings and three meetings of the nomination committee. Directors' attendances at the meetings are set out in the table below.

	Board (6 meetings)	Audit (3 meetings)	Remuneration (5 meetings)	Nomination (3 meetings)
Tim Ryan	5 (6)	2 (1)*	5 (5)	3 (3)
Jane Cavanagh	5 (6)	–	–	3 (3)
Rob Murphy	6 (6)	–	–	–
Bill Ennis	5 (6)	–	–	–
Nigel Wayne	6 (6)	3 (3)	5 (5)	3 (3)
Roger Ames	5 (6)	1 (2)	4 (4)	2 (2)
Don Johnston	2 (2)	2 (2)	–	–

* Tim Ryan stepped down from the audit committee upon the appointment of Roger Ames. He attended one further meeting of the committee as an invited guest.

Roger Ames was appointed to the Board on 25 September 2006. Don Johnston was appointed to the Board on 26 March 2007.

Figures in brackets indicate the number of meetings held in the period in which the director was a member of the Board or Committee.

Operational management

The executive directors are supported by a team of senior managers who are responsible for assisting in the development and achievement of the Group's corporate strategy, business plans and budgets and for reviewing operational and financial performance. The management team, together with the executive directors, are responsible for agreeing and monitoring policies and other matters not reserved for the Board.

Relations with shareholders

The directors meet regularly with institutional shareholders, fund managers and analysts and are available to answer questions from private shareholders. Communication with all shareholders is facilitated by the issue of full year and interim reports which, together with other corporate information, interim management statements and press releases, are available on the Company's website: www.sci.co.uk. The AGM provides a forum for all shareholders to raise issues with the directors. The notice convening the meeting is normally 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 effectiveness. However, such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, in compliance with the guidance on Internal Control: Guidance for Directors on the Combined Code (the Turnbull Report) published in September 1999. This process, which is tied closely to operations, is regularly reviewed by the Board. 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 has policies in place to avoid and/or mitigate those risks. All senior members of staff participate in this process and the results are 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 senior management team, which includes the executive directors who report directly to the Board, are responsible for monitoring and controlling all operational risks. The Board regularly reviews risk summaries so that prompt action can be taken in an appropriate manner. In addition, the internal control process is supported by:

(a) a comprehensive financial control and rolling forecast system;
(b) a flat management structure which facilitates open and timely communication;
(c) sophisticated project management systems to coordinate and control key development and publishing activities;
(d) an experienced legal function that supports the Group's business needs; and
(e) a programme of commercial insurance covering key risks including intellectual property matters, product liability and business interruption.

The Board has considered the need for an internal audit function and, given the scale and nature of the Group's operations, has concluded that one is not required at the present time.

Compliance status

The Company is committed, where possible, to comply with the recommendations of the Code.

The provisions in the Code with which the Company did not comply throughout the period ending 30 June 2007 were as follows:

(A.3.1) Tim Ryan and Nigel Wayne were previously awarded a small number of legacy share options in 2001. The Board has determined that no further share options will be granted to any non-executive directors. Existing options held by Tim Ryan and Nigel Wayne will be exercised or will lapse no later than 2008.

(A.6) as referred to above, the Board is in the process of implementing a self-evaluation process.

Details of directors' remuneration and related matters are set out in the directors' remuneration report on page 33.

External audit matters

Independence

The audit committee has sole responsibility for assessing the independence of the external auditors, BDO Stoy Hayward LLP. Each year the committee undertakes to:

- Seek reassurance that the external auditors and their staff have no family, financial, employment, investment or business relationship with the Company. To this end the committee requires the external auditor and their associates to confirm this in writing, and detail the procedures which the auditor has carried out in order to make this confirmation.
- Check that all partners engaged in the audit process are rotated at least every five years.
- Assess the likely impact on the auditors' independence and objectivity before awarding them any contract for additional services.
- Have as a standing agenda item auditor independence issues at each audit committee meeting.

Going concern

The directors confirm that, after making enquiries, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Corporate responsibility statement

SCi has a strong commitment to its customers, shareholders, employees and, in a wider context, society at large. The Group seeks to enhance its relationships with stakeholders and manage risks in key areas such as health and safety. SCi is included in the FTSE4Good, an index of companies that meet specified corporate responsibility standards. The following policies represent the basis of the Group's approach to corporate responsibility.

Employment policy and employee involvement

The Group's employees are integral to the success of the business and, as a result, the Group pursues employment practices which are designed to attract, retain and develop this talent to ensure the Group retains its strong market position with motivated and satisfied employees.

The Board and senior managers take responsibility for employment matters and have established suitable policies and guidelines. Wherever possible, the Group seeks to benchmark itself against industry best practice. It is the Group's policy to give all staff an opportunity to share in the future success of the business.

Historically this has been achieved through the SCi 1996 Share Option Plan, which expired in July 2006. During the year the remuneration committee carried out a review of long-term incentive provision at the Group and a summary of the recommendations of the review process and proposals for new long-term incentive plans will be circulated to shareholders in due course.

It is Group policy to communicate with all employees on major matters to encourage them to take a wider interest in the affairs of their employing company and the Group. This is done in a variety of ways including via email announcements, internal intranet bulletins and briefing sessions. There are well established procedures, to ensure that the views of employees are taken into account in reaching decisions likely to affect their interests.

The Group assists its employees in achieving an appropriate work/life balance, by measures including policies on parental, maternity and paternity leave and flexible working where appropriate. Workplace discrimination or harassment is not tolerated and the Group is committed to providing equal opportunities to all employees.

The Group operates a system of annual performance appraisals and training is provided to assist employees to develop skills and enhance their professional development. Vacancies are advertised internally and promotion from within is encouraged where possible.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Environmental policy

SCi seeks to ensure that its operations and products cause the minimum detrimental impact to the environment. The Group's objective is to comply with environmental legislation in all countries in which it operates and to promote effective resource management, energy efficiency, waste minimisation and recycling initiatives. Due to the nature of its business, the Group does not have a high environmental impact.

Local internal initiatives include recycling of paper, toner cartridges and computer equipment, use of fair-trade and where possible, environmentally friendly products and promotion of energy conservation. In the UK, the Group participates in the Cycle to Work Scheme, a government initiative to promote healthier commuting and reduce environmental pollution.

Community

The Group aims to partner with local communities in which it operates by supporting local initiatives and charitable events. SCi encourages its employees to participate as volunteers in such activities and supports these initiatives through donations, sponsorship, employee time and/or other contributions. During the year the Group participated in a variety of community related initiatives including:

- provision of work experience programmes for secondary school students to educate young people in technical skills and business practices within the games industry;
- studio visits, student internships, lecturing and career day activities in the US to provide participants with insight into the game development process; and
- donations of computer equipment and games to local charities.

The Group continues to work with the staff of the Northern Regional College in Northern Ireland (formerly the Causeway Institute of Further and Higher Education), which has now expanded its range of courses in games development beyond the BTEC National Diploma. There have been a number of visits by staff and students from NRC to various Eidos offices and development studios and Eidos staff have participated in lectures and seminars at NRC. In addition, one of the course tutors spent three months in 2006 working at the Group's head office in Wimbledon in order to build a better understanding of real-life practices within the video games industry.

During the 12 months to 30 June 2007, SCi made charitable donations of £16,000 (2006: £10,400).

Directors' remuneration report

to the shareholders of SCi Entertainment Group Plc

1. Introduction and compliance

This report has been prepared in accordance with the Companies Act 1985 and summarises the Company's remuneration policy and particularly its application to the directors. The report also describes how the Company applies the principles of the Combined Code on Corporate Governance 2003 (the "Code") in relation to director's remuneration. A resolution to approve this report will be proposed at the forthcoming Annual General Meeting ("AGM").

2. The constitution and remit of the remuneration committee

The remuneration committee (the "committee") is appointed by the Board and currently comprises Nigel Wayne (Committee Chairman), Roger Ames, Don Johnston and Tim Ryan. The committee's principal functions are to advise the Board on the broad framework for executive remuneration, to determine the remuneration packages of the executive directors and to recommend and monitor the level and structure of remuneration for senior management. It reviews the performance of the executive directors and sets the scale and structure of their remuneration and the basis of their service agreements with due regard to market practice and the interests of shareholders. The committee also administers the Group's incentive compensation plans.

The committee meets at least 2 times per year and, additionally, on an ad hoc basis as necessary. The committee has appointed New Bridge Street Consultants LLP ("NBSC"), an independent external firm which has no other connection with the Company, to advise on various aspects of remuneration. During the year, the committee was also provided with legal services from Addleshaw Goddard LLP (one of the Company's legal advisers).

The Chief Executive attends meetings of the committee by invitation other than when matters concerning her own remuneration are under consideration. No director is involved in deciding his or her own remuneration, whether determined by the committee or, in the case of the non-executives, by the Board.

The committee's terms of reference are available on the Group's website.

3. Remuneration policy for executive directors

In determining remuneration packages the committee has regard to the importance of retaining and motivating executive directors as well as linking reward to the Group's performance. Within this context, the committee's policy on executive director remuneration is to:

> pay a competitive base salary designed to attract and retain executive directors relevant to each director's role, experience and the external market;

> provide incentive arrangements which are subject to appropriately tailored challenging performance targets reflecting the Group's objectives and recognise the importance of providing sustained motivation of management to focus on longer term, as well as annual, performance; and,

> align the interest of the executive directors with those of shareholders.

In order to achieve these objectives the committee's approach is that a significant proportion of the overall remuneration package should be linked to the performance of the Group, through participation in an annual performance related bonus scheme and long-term incentive arrangements.

The committee sets performance criteria based on the financial targets set during the Group's budgeting process, taking into account the strategic aims of the Group as well as the interests of shareholders. The targets for each performance criteria are designed to be challenging.

The committee determines whether these criteria have been met, based on relevant financial information and measured on a consistent basis. Where necessary, the committee has access to the expertise of the audit committee to assist in its determination of the extent to which performance targets have been met.

The above policy is expected to continue to be applied in respect of the forthcoming and subsequent years.

During the year the committee carried out a review of long-term incentive provision at the Group following the expiration of the SCi 1996 Share Option Plan in July 2006. Employee share ownership continues to remain a key mechanism through which executives and the wider employee base are rewarded and aligned with the Group objective of creating shareholder value. Use of broad based long-term incentives is part of the SCi culture and it is intended that this will remain the case in future years. A summary of the recommendations of the review process and proposals for new long-term incentive plans will be circulated to shareholders in due course.

4. Remuneration policy and terms of engagement for non-executive directors

The Company's policy on non-executive director remuneration is to pay fees which are in line with market practice, based upon the experience and expertise of the director concerned as well as the time commitment and responsibilities of the role. The fees paid to the Chairman and the other non-executive directors are determined by the board as a whole.

The non-executive directors receive no other benefits, with the exception of a small number of legacy share options granted upon appointment in 2001 to Tim Ryan and Nigel Wayne, as detailed on page 37. The Board has determined that no further share options will be granted to any non-executive director. Existing options held by Tim Ryan and Nigel Wayne will be exercised or will lapse no later than October 2008.

Each non-executive director is appointed for a specified term subject to re-election and a rolling one month notice period. Their letter of appointment contains no provision for payment or compensation on early termination. They are not eligible for bonus payments and their service is not pensionable. Each of the non-executive directors are entitled to reimbursement of reasonable expenses incurred in the course of their duties.

For 2007, the fee for acting as a non-executive director was £25,000 a year. Following the separation of the roles of Chairman and Chief Executive on 30 June 2006, the fee for the non-executive Chairman was set at £85,000 a year with effect from 1 July 2006. In setting the fee level, advice was sought from NBSC with consideration being given to fee levels prevalent among companies of a comparable size to

SCi and the anticipated time commitment associated with the role.

5. Remuneration packages

(a) Basic salary

Each executive director's base salary is set after account is taken of individual performance, responsibilities and experience in post. Salaries are reviewed periodically with account taken of salary levels in companies of a comparable size, sector and pay and employment conditions elsewhere within the Group.

The current salary levels of the executive directors, effective from 1 July 2007, are set out below (the figures in brackets reflect salary levels effective as at 30 June 2007):

Jane Cavanagh	£414,000 (£400,000)
Bill Ennis	£208,889 (£201,825)
Rob Murphy	£208,889 (£201,825)
Phil Rogers*	£208,889 (£170,775)

* appointed 27 September 2007. Salary review effective 1 November 2007.

As set out in our last year's remuneration report, a formal review of base salary levels was undertaken in 2006 with the next formal review due to take place during 2008. The salary increases from 1 July 2007, reflect a cost of living increase of 3.5%, the same rate which was applied generally to the senior management team.

(b) Benefits in kind

Benefits for the executive directors consist of a car allowance, private medical and dental insurance, life assurance and permanent health insurance. The value of benefits is not pensionable.

(c) Pensions

Pension contributions are made on behalf of executive directors based on 15% of basic salary.

(d) Annual performance related bonus

The executive directors participate in an annual bonus scheme which is administered by the committee. Payments under the scheme are based on exceeding the Group's target profit level, with the actual targets set early in the financial year for which the bonus is payable.

From 1 July 2006 to 30 June 2007 the maximum potential annual bonus award under the scheme was 67% of basic salary for Rob Murphy and Bill Ennis, and 100% of basic salary for Jane Cavanagh. As the threshold targets for the year were not achieved, none of the executive directors earned a bonus under the annual scheme. The annual bonus is not pensionable.

(e) Long-term incentive plans

The 2008 LTIP

At the Company's AGM on 7 February 2006 shareholders approved the terms of a long-term incentive plan ("LTIP") which applies to all executive directors and is based on corporate performance in the three year period to 30 June 2008 (the "2008 LTIP"). Under the 2008 LTIP, corporate performance is measured in three ways (as detailed below), each selected by the committee as being challenging and appropriate criteria given the circumstances that prevailed and were forecast at the time of grant to be significant over the LTIP period and which link awards to the creation of long-term shareholder value. The maximum payment to each executive director is 100% of aggregate basic salary over the three year period of the 2008 LTIP, except that in the event that total EBITDA for the three years ending 30 June 2008 were to exceed £80 million, the maximum payment is 125% of aggregate basic salary, provided that all three performance criteria have been met.

The three performance measures used to determine the amount payable to each director are:

(i) 40% of the maximum payment will be determined by reference to cumulative EBITDA. This element will be calculated in accordance with the following scale on a pro-rata basis:

Cumulative EBITDA	Proportion of this element payable
Less than £60 million	0%
£60 million – £65 million	25%
£65 million – £70 million	50%
£70 million – £75 million	75%
£75 million – £80 million	100%

In determining whether this condition has been met, the committee will primarily have regard to profits generated from the Group structure as at the time of grant. Profit 'acquired' as a result of merger or acquisition activity may be disregarded and/or result in an appropriate amendment to this target parameter.

(ii) 40% of the maximum payment will be determined by reference to growth in profits. The Group must report growth in profit before tax in each of the three years ending 30 June 2008. The committee selected this measure as an industry specific target for the period of transition from one generation of gaming platform to the next which, for the games industry, has historically been a volatile and challenging period in which to achieve consistent year on year growth. In the view of the committee at the time of grant, positive year on year growth in each of the three years ending 30 June 2008 was sufficiently challenging and, therefore, it would have been inappropriate to set a range of growth targets. As with performance measure (i), profit growth will primarily be measured in respect of the Group structure as at present, and growth achieved by acquisition may be disregarded.

For the year ended 30 June 2007, profit growth (measured in EBITDA) was not achieved over 2006 comparable, therefore this element of the 2008 LTIP will not be met and no payment will accrue to the executive directors.

(iii) 20% of the maximum payment will be determined by reference to share price performance. Over the period between 1 July 2005 and 30 June 2008 as a whole, SCi's share price must outperform the FTSE Media Index (formerly the FTSE Media & Entertainment Index).

The committee considered at the time of grant that a comparison relative to the FTSE Media Index which contains similar businesses was more appropriate than a comparison with a general FTSE Index. As with performance measure (ii), share price growth which outperforms the FTSE Media Index over the transition period between gaming platforms will be difficult to achieve. Given that not all other companies within the Media Index will be facing that same challenge over the 2008 LTIP period, the committee considered that a specific target out-performance percentage was not appropriate. Awards under the LTIP are not pensionable.

Share options

The Group has historically operated the SCi 1996 share Option Plan (the "Plan") which expired in July 2006. No further share options were granted to the executive directors during the period under review. Details of share options exercised by the executive directors during the year are set out in item 9 on page 37.

Under the Plan, options were granted to eligible participants at the market price at the date of grant. Options may be exercised at any time between the third and seventh anniversaries of date of grant, provided that specific performance conditions have been fulfilled.

The performance conditions require the Company's share price to have outperformed the FTSE Media Index over the period from the date of grant to exercise. The committee chose share price growth as the performance condition for share options as it believed it at the time to be an appropriate measure of long-term shareholder return. The requirement to exceed the performance of the FTSE Media Index was considered to be challenging.

Under the terms of a long-term service agreement, Rob Murphy is currently eligible for further share option awards totalling 250,000 share options in aggregate. As with all the options previously granted, these options may not be exercised for three years and may then only be exercised subject to meeting the performance criteria set out above. These option awards, contained within the long-term service agreement, were considered by the committee to form an important part of a remuneration package that motivated and retained a key executive within the Company and to further align his interests with those of shareholders.

(f) Proposed long-term incentive arrangements

As stated above, the committee has conducted a review of long-term incentive provision of the Group. The conclusions of this review, including proposals for new long-term incentive plans, will be circulated to shareholders in due course.

Where appropriate and approved by the remuneration committee, outstanding legacy option awards including those for Rob Murphy referred to above, or equity incentives of an equivalent value, will be granted under the new plans.

6. Service contracts

All of the executive directors, in line with the committee's policy, have service agreements which provide for no more than 12 months' notice from either party. Details of the directors' terms of appointment and notice periods are as follows:

	Date of appointment	Expiry date of current term/Notice period
Jane Cavanagh	3 May 1996	Terminable on 12 months' rolling notice
Bill Ennis	3 May 1996	Terminable on 12 months' rolling notice
Rob Murphy	21 April 1997	Terminable on 6 months' rolling notice
Phil Rogers	27 September 2007	Terminable on 6 months' rolling notice
Tim Ryan	19 October 2001	26 September 2010/Terminable on 1 month's rolling notice
Nigel Wayne	20 July 2001	12 July 2010/Terminable on 1 month's rolling notice
Roger Ames	25 September 2006	25 September 2009/Terminable on 1 month's rolling notice
Don Johnston	26 March 2007	26 March 2010/Terminable on 1 month's rolling notice

Jane Cavanagh would be eligible to receive payment in lieu of notice on termination which would include base salary, benefits and annual bonus calculated by reference to bonus opportunity accrued during the relevant year and any unexpired notice period based on average bonuses paid over the previous three years. Jane Cavanagh would also be entitled to retain her existing share options pursuant to the rules of the SCi 1996 Share Option Plan, unless she is terminated for gross misconduct. There is no enhancement to these terms if termination occurs following a change of control of the Company.

There are no provisions for compensation to be payable in the event of early termination in the service contracts of Rob Murphy, Bill Ennis and Phil Rogers other than for payment in lieu of notice.

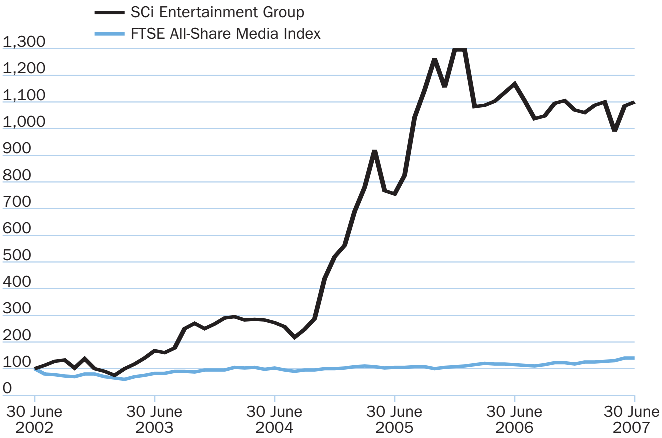
The committee recognises that executive directors may be invited to accept external non-executive directorships and that this can broaden the knowledge and experience of directors for the benefit of the Company. Accordingly, subject to Board approval, executive directors may accept such appointments provided they are not likely to lead to a conflict of interest or constrain their abilities to fulfil their duties. They are also allowed to retain any fees paid under such appointments. During the year Bill Ennis served as a non-executive director of Jalepo Ltd for which he did not receive any fees. No other executive director currently holds external appointments.

7. Performance graph

The following graphs show the Company's total shareholder return ("TSR") since 30 June 2002 relative to the FTSE Media Index and the FTSE Software & Computer Services Index. TSR represents share price growth plus reinvested dividends. The two indices have been selected as they each provide a broad equity market index against which the Company's performance can be compared for these limited purposes, recognising the uniqueness of the niche market in which the Company operates and the absence of any material comparator UK companies.

Total shareholder return

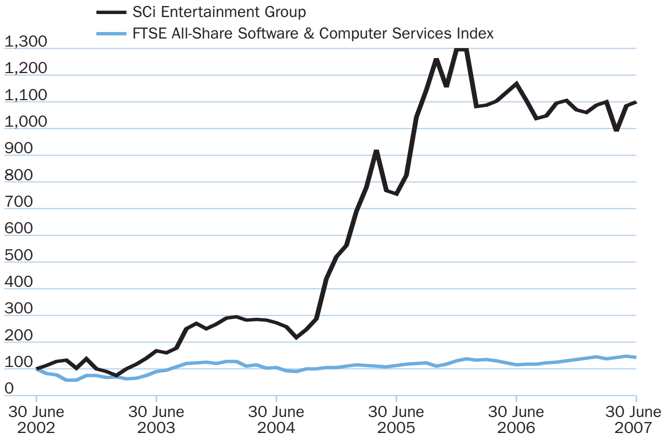
Relative to FTSE All-Share Media Index



Source: Perfect Information

Total shareholder return

Relative to FTSE All-Share Software & Computer Services Index



Source: Perfect Information

8. Individual directors' remuneration

The remuneration of each director for the 12 months ended 30 June 2007 was as follows:

	Basic salary/ fees[1] £000s	Annual bonus[2] £000s	Taxable benefits £000s	**Total 2007 £000s**	Total 2006[3] £000s	Pension 2007[4] £000s	Pension 2006[4] £000s
Executive							
Jane Cavanagh	407.7	181.5	14.8	**604.0**	394.3	61.2	45.9
Bill Ennis	205.7	128.7	11.4	**345.8**	255.0	30.9	29.3
Rob Murphy	205.7	128.7	10.4	**344.8**	255.0	30.9	29.3
Non-executive							
Tim Ryan	86.6	–	–	**86.6**	25.0	–	–
Nigel Wayne	25.5	–	–	**25.5**	27.5	–	–
Roger Ames	19.6	–	–	**19.6**	–	–	–
Don Johnston	6.7	–	–	**6.7**	–	–	–
Totals	957.5	438.9	36.6	**1,433.0**	956.8	123.0	104.5

1 Represents salaries paid from 1 July 2006 to 6 July 2007.
2 Represents bonuses paid in respect of the 12 months to 30 June 2006.
3 2006 totals exclude annual bonuses dealt with above.
4 Pension represents contributions to money purchase schemes.

Information relating to directors' remuneration in sections 8 and 9 in tabular form has been audited and an opinion in that regard forms part of the auditors' report on page 39.

9. Directors' interests in share options

The interests of the directors in share options of the Company at 30 June 2007 are set out in the table below:

	1 July 2006 Number	Granted Number	Exercised[2] Number	**30 June 2007 Number**	Exercise price Pence	Exercisable
Jane Cavanagh	75,000	–	(75,000)	**–**	39	11 December 2001 to 11 December 2005[1]
	80,000	–	–	**80,000**	81	20 August 2004 to 20 August 2008
	80,000	–	–	**80,000**	72	16 June 2006 to 16 June 2010
	43,865	–	–	**43,865**	125.5	31 March 2007 to 31 March 2011
	270,000	–	–	**270,000**	333.5	30 June 2008 to 30 June 2012
	548,865	–	(75,000)	**473,865**		
Bill Ennis	50,000	–	(50,000)	**–**	39	11 December 2001 to 11 December 2005[1]
	80,000	–	–	**80,000**	81	20 August 2004 to 20 August 2008
	170,000	–	–	**170,000**	72	16 June 2006 to 16 June 2010
	410,000	–	–	**410,000**	100.5	27 August 2007 to 27 August 2011
	270,000	–	–	**270,000**	333.5	30 June 2008 to 30 June 2012
	980,000	–	(50,000)	**930,000**		
Rob Murphy	50,000	–	(50,000)	**–**	39	11 December 2001 to 11 December 2005[1]
	41,000	–	(41,000)	**–**	56.5	8 March 2002 to 8 March 2006[1]
	80,000	–	–	**80,000**	81	20 August 2004 to 20 August 2008
	84,809	–	–	**84,809**	125.5	31 March 2007 to 31 March 2011
	85,000	–	–	**85,000**	100.5	27 August 2007 to 27 August 2011
	270,000	–	–	**270,000**	333.5	30 June 2008 to 30 June 2012
	75,000	–	–	**75,000**	484	17 October 2008 to 17 October 2012
	685,809	–	(91,000)	**594,809**		
Tim Ryan[3]	20,000	–	–	**20,000**	85	1 October 2004 to 1 October 2008
Nigel Wayne[3]	17,500	–	–	**17,500**	47.5	18 July 2004 to 18 July 2008
	2,252,174	–	(216,000)	**2,036,174**		

1 During the 12 month period to 30 June 2006 the committee amended the rules of the SCi Share Option Scheme to extend the exercise period of options granted on 11 December 1998 and 8 March 1999 where, immediately prior to the expiry of the exercise period, the Company was in a close period or otherwise subject to a prohibition on share dealing by directors. In such circumstances the exercise period was extended until one month following the end of such period.

2 The market price of the Company's shares at the date of exercise was 475p. The aggregate gain before tax made by the directors upon the exercise of options was £933,707 (2006: £nil).

3 Share options are no longer granted to non-executive directors. Existing options granted in 2001 to Tim Ryan and Nigel Wayne will be exercised or will lapse no later than 2008.

Performance conditions applying to all the above share option awards require the Company's share price to have outperformed the FTSE Media Index over the period from the date of grant to exercise.

10. Share price

The market price of the ordinary shares at 6 July 2007 was 518.5p and the range during the period was 419p to 525p.

11. AGM and documents available for inspection

In accordance with statutory requirements, an ordinary resolution to approve this remuneration report will be proposed at the Company's AGM.

The directors' service contracts and letters of appointment, together with the statutory register of directors' interests (containing full details of directors' shareholdings and other interests), are available for inspection by shareholders at the Company's registered office during normal business hours and at the AGM.

On behalf of the Board,

Nigel Wayne
Chairman – Remuneration committee
7 December 2007

Report of the independent auditors

to the shareholders of SCi Entertainment Group Plc

We have audited the Consolidated and parent Company financial statements (the “financial statements”) of SCi Entertainment Group Plc for the year ended 30 June 2007 which comprise the consolidated income statement, the consolidated and parent Company balance sheets, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors’ remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors’ responsibilities for preparing the annual report and the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union, and for preparing the parent Company financial statements and the directors’ remuneration report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors’ responsibilities. SCi Entertainment Group Plc has complied with the requirements of rules 9.8.6 and 9.8.8 of the Listing Rules in preparing its annual report.

Our responsibility is to audit the financial statements and the part of the directors’ remuneration report to be audited 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 and whether the financial statements and the part of the directors’ remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the consolidated financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. Additionally, we report to you whether, the information given in the directors’ report is consistent with those financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors’ remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company’s compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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. The other information comprises only the chairman’s statement, chief executive’s statement, the operating and financial review, the directors’ biographies, the directors’ report, the corporate governance statement, corporate responsibility statement and the unaudited part of the directors’ remuneration report. 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 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 and the part of the directors’ remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group’s and 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 and the part of the directors’ remuneration report to be audited 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 and the part of the directors’ remuneration report to be audited.

Opinion

In our opinion:

> the consolidated financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group’s affairs as at 30 June 2007 and of its loss for the year then ended;
> the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
> the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent Company’s affairs as at 30 June 2007;
> the parent Company financial statements and the part of the directors’ remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
> the information given in the directors’ report is consistent with the financial statements.

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
London

7 December 2007

Consolidated income statement

for the 12 months to 30 June 2007

	Notes	12 months to 30 June 2007 £m	12 months to 30 June 2006 £m
Revenue	2	**144.0**	179.1
Cost of sales		**(87.0)**	(75.3)
Gross profit		**57.0**	103.8
Development costs – exceptional	6	**(13.8)**	(1.1)
– other		**(19.0)**	(27.0)
Advertising		**(13.7)**	(19.4)
Administrative costs – exceptional	6	**(0.6)**	(0.7)
– other		**(41.3)**	(47.8)
Administrative expenses		**(88.4)**	(96.0)
(Loss) profit from operations	4	**(31.4)**	7.8
Finance income	3	**1.2**	0.7
Finance costs	3	**(0.5)**	(0.3)
Profit on disposal of associate		**0.6**	–
Share of profit (loss) in associate		**0.1**	(0.1)
(Loss) profit before taxation		**(30.0)**	8.1
Tax credit	7	**1.9**	5.4
(Loss) profit for the year		**(28.1)**	13.5
Attributable to:			
Equity holders of the parent		**(28.1)**	13.4
Minority interest		**–**	0.1
		(28.1)	13.5

(Loss) earnings per share		2007 Pence	2006 Pence
Basic	8	**(35.3)**	18.5
Diluted	8	**(35.3)**	17.7

The notes on pages 44 to 70 form part of these financial statements.

Consolidated statement of changes in equity

for the 12 months to 30 June 2007

	Attributable to equity holders of the parent Company										
	Share capital £m	Share premium £m	Merger reserve £m	Capital reserve £m	Foreign currency translation reserve £m	Share based comp-ensation £m	Employee benefit trust share reserve £m	Retained profit £m	Total £m	Minority interest £m	**Total equity £m**
1 July 2005	3.5	57.4	69.9	6.3	–	0.3	(0.9)	1.5	138.0	14.3	**152.3**
Profit for the year	–	–	–	–	–	–	–	13.4	13.4	–	**13.4**
Charged to equity											
New shares issued	0.2	17.4	–	–	–	–	–	–	17.6	–	**17.6**
Share issue costs	–	(0.2)	–	–	–	–	–	–	(0.2)	–	**(0.2)**
Issue of shares for remaining 10% of Eidos	0.1	–	11.4	–	–	–	–	–	11.5	(12.7)	**(1.2)**
Share based compensation	–	–	–	–	–	4.4	–	–	4.4	–	**4.4**
Foreign exchange	–	–	–	–	0.5	–	–	–	0.5	–	**0.5**
Total charged to equity	0.3	17.2	11.4	–	0.5	4.4	–	–	33.8	(12.7)	**21.1**
Total income and expense for the year	0.3	17.2	11.4	–	0.5	4.4	–	13.4	47.2	(12.7)	**34.5**
30 June 2006	3.8	74.6	81.3	6.3	0.5	4.7	(0.9)	14.9	185.2	1.6	**186.8**
Loss for the year	–	–	–	–	–	–	–	(28.1)	(28.1)	–	**(28.1)**
Charged to equity											
New shares issued	0.5	46.6	–	–	–	–	–	–	47.1	–	**47.1**
Share issue costs	–	(0.9)	–	–	–	–	–	–	(0.9)	–	**(0.9)**
Share based compensation	–	–	–	–	–	2.4	–	–	2.4	–	**2.4**
Purchase of minority interest in Proein SL	–	–	–	–	–	–	–	–	–	(1.6)	**(1.6)**
Share based compensation moved to liabilities*	–	–	–	–	–	(2.0)	–	–	(2.0)	–	**(2.0)**
Foreign exchange	–	–	–	–	(1.1)	–	–	–	(1.1)	–	**(1.1)**
Total charged to equity	0.5	45.7	–	–	(1.1)	0.4	–	–	45.5	(1.6)	**43.9**
Total income and expense for the year	0.5	45.7	–	–	(1.1)	0.4	–	(28.1)	17.4	(1.6)	**15.8**
30 June 2007	**4.3**	**120.3**	**81.3**	**6.3**	**(0.6)**	**5.1**	**(0.9)**	**(13.2)**	**202.6**	**–**	**202.6**

* Transfer to liabilities of amounts in respect of cash settled overseas staff equity schemes previously classified within reserves.

Consolidated balance sheet

at 30 June 2007

	Notes	30 June 2007 £m	30 June 2006 £m
Non current assets			
Property plant and equipment	10	**6.5**	3.2
Goodwill	11	**2.7**	4.7
Other intangible assets	12	**102.7**	105.7
Capitalised development costs	13	**81.8**	46.1
Investment in associates	14	**0.6**	0.4
Deferred tax assets	18	**0.1**	2.1
		194.4	162.2
Current assets			
Inventory	15	**7.2**	5.2
Trade and other receivables	16	**41.3**	57.5
Cash and cash equivalents		**31.4**	37.2
		79.9	99.9
Assets classified as held for sale	17	**–**	0.2
Total assets	2	**274.3**	262.3
Non current liabilities			
Provisions	22	**6.2**	–
Deferred tax liabilities	18	**13.2**	15.4
		19.4	15.4
Current liabilities			
Trade and other payables	19	**30.0**	29.8
Tax liabilities	20	**4.1**	7.3
Accruals and deferred income		**10.1**	8.0
Provisions	21	**8.1**	15.0
		52.3	60.1
Total liabilities	2	**71.7**	75.5
Equity			
Share capital	23	**4.3**	3.8
Share premium	25	**120.3**	74.6
Merger reserve	25	**81.3**	81.3
Capital reserve	25	**6.3**	6.3
Foreign currency translation reserve	25	**(0.6)**	0.5
Share based compensation	25	**5.1**	4.7
Employee benefit trust share reserve	25	**(0.9)**	(0.9)
Retained profits	25	**(13.2)**	14.9
Equity attributable to equity holders of the parent Company		**202.6**	185.2
Minority interests		**–**	1.6
Total equity		**202.6**	186.8
Total liabilities and equities		**274.3**	262.3

The notes on page 44 to 70 form part of these financial statements.
These financial statements were approved by the Board of directors and authorised for issue on 7 December 2007 and signed on its behalf by:

Jane Cavanagh.

Jane Cavanagh
Director

Phil Rogers
Director

Consolidated cash flow statement

for the 12 months to 30 June 2007

	Note	**12 months to 30 June 2007 £m**	12 months to 30 June 2006 £m
Operating activities			
Net (loss) profit from ordinary activities		**(30.0)**	8.1
Share based compensation		**2.2**	4.4
Depreciation on plant, property and equipment and software amortisation charged to the income statement	4	**1.6**	1.8
Amortisation of brands and technology	4	**11.0**	10.6
Impairment of goodwill		**2.7**	2.4
Financing income		**(1.2)**	(0.7)
Financing costs		**0.5**	0.3
Net loss (profit) made by associates		**(0.1)**	0.1
Profit on disposal of associate		**(0.6)**	–
		(13.9)	27.0
Decrease (increase) in trade and other receivables		**14.4**	(26.6)
Increase in inventories		**(2.6)**	(1.4)
Release of capitalised development costs		**32.8**	28.1
(Decrease) increase in trade and other payables, accruals, deferred income and provisions		**(4.9)**	6.3
Cash generated from operations		**25.8**	33.4
Income taxes paid		**(2.1)**	(0.5)
Cash flows from operating activities		**23.7**	32.9
Investing activities			
Payment for subsidiary undertakings		**(3.9)**	–
Cash acquired with subsidiaries		**0.9**	–
Acquisition expenses		**(0.2)**	–
Purchase of property, plant and equipment and intangible software		**(5.5)**	(2.2)
Interest received		**1.2**	0.7
Expenditure on capitalised development costs		**(68.5)**	(57.4)
Sale of investments in associated undertakings		**0.8**	–
Net cash used in investing activities		**(75.2)**	(58.9)
Financing activities			
Proceeds from issue of share capital		**47.1**	17.6
Share issue expenses		**(0.9)**	(0.2)
Interest paid		**(0.5)**	(0.3)
Net cash generated by financing activities		**45.7**	17.1
Net (decrease) in net cash and cash equivalents		**(5.8)**	(8.9)
Cash and cash equivalents at beginning of period		**37.2**	46.1
Cash and cash equivalents at end of period		**31.4**	37.2

The notes on page 44 to 70 form part of these financial statements.

Notes to the consolidated accounts

for the 12 months to 30 June 2007

1. Accounting policies

The principal accounting policies of the Group are summarised below.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS and IFRIC interpretations) issued by the International Accounting Standards Board ("IASB"), as endorsed by the EU, and, with those parts of the Companies Act 1985 applicable to preparing financial statements under IFRS. For the year ended 30 June 2006, the transitional requirements of IFRS 1 were adopted in relation to business combinations, cumulative translation differences, share based payments and financial instruments, details of which are included in note 32 of the 2006 financial statements.

SCi Entertainment Group Plc is domiciled in England, where it is incorporated as a public limited company. Its registered office is Wimbledon Bridge House, 1 Hartfield Road, Wimbledon, London SW19 3RU. The Group is a developer and publisher of computer and console based entertainment. SCi Entertainment Group Plc is the holding company of the Group and the ultimate parent Company.

Basis of consolidation

The consolidated financial statements consolidate the financial statements of SCi Entertainment Group Plc and its subsidiary undertakings drawn up to 30 June 2007.

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.

Accounting periods

The accounting reference date of the Group is 30 June. The current years results are for the period to 6 July 2007. The comparative years results are for the year to 30 June 2006.

Property, plant and equipment

Property plant and equipment are stated at cost, net of depreciation and provision for impairment. Depreciation is provided on all property plant and equipment, 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: over the life of the lease
> Equipment and vehicles: 3 to 5 years

Goodwill

All Company business combinations are recorded using the acquisition method. Goodwill results from the acquisition of subsidiaries, associates and joint entities and corresponds to the difference between the acquisition cost and the fair value of the assets, liabilities and contingent liabilities identified at the date of acquisition.

Positive goodwill is not amortised but is subject to annual impairment tests at the end of each accounting period. The recoverable value of goodwill is then estimated on the basis of the higher of market value or value in use. Value in use is defined as the present value relating to the cash flow generating units with which the goodwill is associated. When the market value or value in use is less than the accounting value, impairment is recorded and is irreversible.

Intangible assets

Intangible assets acquired by the Group are recorded at their valuation (brands and technology) or cost (software) less the total of amortisation and impairment. In accordance with IAS38 "Intangible assets", only elements whose cost can be determined reliably and for which it is probable that future benefits exist are recorded as non current assets.

Intangible assets are amortised over the expected period of use:

> Brands: 15 years
> Technology: 8 years
> Software: 3 years

Brands and technology relates to trademarks, characters, images, engines and designs acquired by the Group that were identifiable and measurable. These assets are amortised over a period of 15 and eight years respectively based on the useful economic lives, applicable to the individual characteristics of the respective asset. At the close of each fiscal year these assets are also subject to impairment tests whereby the recoverable value of brands and technology is then estimated on the basis of either market value or value in use. Value in use is defined as the present value relating to the cash flow with which the assets are associated.

Software relates to applications not required to run hardware and are amortised over three years.

1. Accounting policies continued

Capitalised development costs

Capitalised development costs correspond to the costs incurred in the development of new games, including re-usable technology costs carried forward from earlier versions of game series, and costs incurred to develop engine technology to the extent that the Group has determined that:

- the product/engine is technically and commercially feasible;
- the product/engine is clearly defined and related expenditure is separately identifiable;
- current and future costs are expected to be exceeded by future earnings;
- the Group has the intention and ability to complete the game/engine development and use or resell it;
- adequate resources exist for the product to be completed; and
- the valuation attributed to the re-usable technology element of a game is assessed by management with appropriate internal expert technological assistance at the time of release of a game for which there is a high expectation that a sequel game will be produced and released.

Game costs are amortised over the period that prudently simulates the flow of revenues from a typical game, in the period starting from the month of release of the game.

Engines and technology are amortised on a straight line basis over the estimated useful life of the engine or technology, commencing from the point at which the engine or technology is in a state from which it can be usefully employed on multiple projects in the studio of creation and other locations.

At the close of each fiscal year game and engine costs are reviewed by project for any loss of value compared to the net book value at that time.

Where the expected future contribution of a game does not exceed the total expected costs to complete the development an impairment provision is made.

Associated undertakings

Associated undertakings are undertakings in which the Group holds a long-term interest and over which it has the power to exercise significant influence but not control. The Group's share of profits less losses from associated undertakings is included in the consolidated income statement on the equity accounting basis and its interest in their net assets included in investments in the balance sheet.

Inventory

Inventory comprise finished goods for resale, and are stated at the lower of cost and net realisable value. Cost is calculated as cost of materials. Net realisable value is based on estimated selling price, less further disposal costs.

Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated. The results of operations disposed during the year are included in the consolidated income statement up to the date of disposal.

Provisions

Provisions are recognised for liabilities of uncertain timing or amount that have arisen as a result of past transactions and are discounted at a pre-tax rate reflecting current market assessments of the time value of money and the risks specific to the liability.

Taxation

Corporation tax payable is provided on taxable profits at prevailing rates.

1. Accounting policies continued

Deferred taxation

Deferred income tax is calculated using the asset-liability method of tax allocation for all temporary differences arising between the book value of assets and liabilities and their tax bases, except for differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising on:

> the initial recognition of goodwill;
> goodwill for which amortisation is not tax deductible;
> the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
> investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxation is shown on the balance sheet separately from current tax assets and liabilities and categorised among non-current items.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

The same taxable Group company or;

Different Group entities which intend to either settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Foreign currency

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign currency translation reserve"). Exchange differences recognised in the income statement of Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the Group or the overseas operation concerned. On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

Financial assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises only in-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement. The Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. They are carried at cost less any provision for impairment.

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. These assets are measured at amortised cost, with changes through the income statement.

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement.

1. Accounting policies continued

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises only out-of-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

Other financial liabilities: Other financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.
- Bank borrowings are initially recognised at fair value. Unless stated otherwise this equates to the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premia payable on redemption, as well as any interest payable while the liability is outstanding.

Completion bonding

Completion bonding provides financial assurance that a product will be developed on time, on budget and in accordance with agreed specifications. In the event of delay or failure, the cost of the project will be guaranteed by the bond rather than borne by the Group.

Development costs covered by a completion bond are treated in the same manner as all other development costs and are capitalised in the balance sheet until time of release. If a completion bond is utilised then these costs will be released from the balance sheet as the project is passed over to the completion bond company and the amounts received from the completion bond company will be offset against the development costs expensed to the income statement.

The cost of holding the bond is expensed over the period insured.

Leases

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the group (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balances owed to the lessor.

Where substantially all of risks and rewards incidental to ownership are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term.

The land and buildings elements of property leases are considered separately for the purpose of lease classification.

Employee Benefit Trust ("EBT") share reserve

The cost of the Company's shares held by the EBT is deducted from shareholders' funds in the Group balance sheet. Any gain or loss by the EBT on disposal of the shares it holds is also recognised directly in shareholders' funds to the extent that it exceeds amounts due from the EBT in relation to the set up of the share trust. Other assets and liabilities of the EBT (including borrowings) are recognised as assets and liabilities of the Group.

Any shares held by the EBT are treated as cancelled for the purpose of calculating earnings per share.

Revenue recognition

Revenue comprises: (a) sales of games to retailers and external distributors at invoiced and accrued amounts less value added tax and provision against any subsequent returns. The Group makes provision against any subsequent returns or price protection; (b) royalty payments received or accrued from external distributors under licence of the right to distribute games in certain territories. Where advance payments against royalties are received under licence, in so far as the Group's obligations have been fulfilled, such advances are recognised at the point at which they become non-returnable; and (c) royalty payments received or accrued from third parties under licence of the right to exploit the Group's intellectual property on other media. Turnover from sales of games is recognised at the point at which the game is delivered.

Long-term incentive plan for executive directors

Future payments under the Group's long-term incentive plan are estimated and charged to the consolidated income statement account over the remaining period to which they relate. A charge is made when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when the future payments can be reliably estimated.

1. Accounting policies continued

Pensions

For defined contribution schemes, the amount charged to the consolidated income statement in respect of pension costs 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.

Share based compensation

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

The Group also operates a phantom share option scheme. An option pricing model is used to measure the Group's liability at each balance sheet date, taking into account the terms and conditions on which the bonus is awarded and the extent to which employees have rendered service. Movements in the liability (other than cash payments) are recognised in the income statement.

Exceptional Items

Exceptional items are those which are separately identified by virtue of their size or incidence to allow a full understanding of the underlying performance of the Group.

Critical accounting estimates and judgements

The Group makes estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revenue recognition

The Group recognises revenue of sales of games to retailers and external distributors. Based on past experience with similar sales, the Group makes provision against any subsequent returns or price protection. The Group therefore recognises revenue on these transactions with corresponding provision against the revenue for estimate of returns and price protection.

Impairment of goodwill

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary.

Useful lives of intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Due to the long life of the assets, changes to the estimates used can result in significant variations in the carrying value.

Inventory

The Company reviews the net realisable value of and demand for its inventory on a quarterly basis to ensure recorded inventory is stated at the lower of cost or net realisable value. Factors that could impact estimated demand and selling prices are the timing and success of future technological innovations, competitor actions, supplier prices and economic trends. If total inventory losses differ from management estimates, the Group's consolidated net income in 2007 would have improved/declined, depending upon whether the actual results were better/worse, respectively, than expected.

Income taxes

The Group is subject to income tax in several jurisdictions and significant judgement is required in determining the provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The Company believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

1. Accounting policies continued

Share based payment

The Group has two types of share-based remuneration schemes for employees. Employee services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of grant, excluding the impact of any non-market vesting conditions. Fair value of the share options is estimated by using a binomial valuation model, on the date of grant based on certain assumptions. Those assumptions are described in note 24 and include, among others, risk free interest rate, expected volatility and expected life of the options.

Legal proceedings

In accordance with IFRS the Group only recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Realisation of any contingent liabilities not currently recognised or disclosed in the financial statements could have a material effect on the Group's financial position. Application of these accounting principles to legal cases requires the Group's management to make determinations about various factual and legal matters beyond its control. The Group reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

New Accounting Standards

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2007 or later periods and which the Group has decided not to adopt early. These are:

IFRS 7, Financial Instruments: disclosures (effective for accounting periods beginning on or after 1 January 2007).

IAS 1, Presentation of financial statements (effective for accounting periods beginning on or after 1 January 2007).

IAS 1, Presentation of financial statements: A Revised Presentation (effective for accounting periods beginning on or after 1 January 2009). The revised IAS 1 is still to be endorsed by the EU.

IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009).

IAS 23 Borrowing Costs (revised) (effective for accounting periods beginning on or after 1 January 2009). The revised IAS 23 is still to be endorsed by the EU.

IFRIC 10, Interim Financial Reporting and Impairment (effective for accounting periods beginning on or after 1 November 2006).

IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 March 2007).

IFRIC 12, Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008). IFRIC 12 is still to be endorsed by the EU.

IFRIC 13, Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008). IFRIC 13 is still to be endorsed by the EU.

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2008). IFRIC 14 is still to be endorsed by the EU.

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's results in the period of initial application.

2. Segmental analysis

Primary Segment: Geographic

	12 months to 30 June 2007 £m	12 months to 30 June 2006 £m
Revenue by destination		
United Kingdom	**28.2**	41.9
Europe	**56.3**	67.4
United States of America	**49.1**	64.8
Rest of World	**10.4**	5.0
Total revenue	**144.0**	179.1

(Loss) profit before tax by destination		
United Kingdom*	**(34.3)**	(1.9)
Europe	**(0.4)**	4.3
United States of America	**3.7**	5.7
Rest of World	**1.0**	–
(Loss) profit before tax	**(30.0)**	8.1

* Central costs have been included within the United Kingdom results.

Net assets (liabilities)

As at 30 June 2007 Geographical segment	Assets £m	Liabilities £m	Net assets £m	Depreciation and amortisation of software £m	Capital additions* £m
United Kingdom	220.4	(49.7)	170.7	1.4	2.2
Europe	34.3	(11.5)	22.8	0.6	0.9
United States of America	19.4	(10.5)	8.9	0.2	2.3
Rest of World	0.2	–	0.2	–	–
Total	**274.3**	**(71.7)**	**202.6**	**2.2**	**5.4**

As at 30 June 2006 Geographical segment					
United Kingdom	186.1	(41.9)	144.2	1.4	1.3
Europe	43.5	(17.2)	26.3	0.8	0.8
United States of America	32.4	(16.3)	16.1	0.4	0.1
Rest of World	0.3	(0.1)	0.2	–	–
Total	262.3	(75.5)	186.8	2.6	2.2

* Capital additions include additions to plant, property, equipment and intangible software.

2. Segmental analysis continued

Secondary segment: Business segments	**12 months to 30 June 2007 £m**	12 months to 30 June 2006 £m
Revenue by business segment		
Publishing	**75.2**	145.3
Distribution	**60.1**	28.6
Licensing	**8.7**	5.2
Total revenue	**144.0**	179.1

(Loss) profit before tax by business segment		
Publishing	**(19.5)**	3.7
Distribution	**(13.8)**	3.3
Licensing	**3.3**	1.1
(Loss) profit before tax	**(30.0)**	8.1

Net assets (liabilities)

As at 30 June 2007 **Business segment**	Assets £m	Liabilities £m	Net assets £m	Depreciation and amortisation of software £m	Capital additions* £m
Publishing	236.9	(50.3)	186.6	1.2	3.0
Distribution	30.2	(21.4)	8.8	0.8	1.9
Licensing	7.2	–	7.2	0.2	0.5
Total	**274.3**	**(71.7)**	**202.6**	**2.2**	**5.4**

As at 30 June 2006 **Business segment**	Assets £m	Liabilities £m	Net assets £m	Depreciation and amortisation of software £m	Capital additions* £m
Publishing	243.0	(62.5)	180.5	2.1	1.8
Distribution	16.5	(13.0)	3.5	0.4	0.3
Licensing	2.8	–	2.8	0.1	0.1
Total	262.3	(75.5)	186.8	2.6	2.2

* Capital additions include additions to plant, property, equipment and intangible software.

3. Net finance charges

	12 months to 30 June 2007 £m	12 months to 30 June 2006 £m
Finance income		
Other interest receivable	**1.2**	0.7
Finance expense		
Bank loans and overdrafts	**(0.5)**	(0.3)
Net finance charges	**0.7**	0.4

4. Profit from operations

This has been arrived at after charging (crediting):	**12 months to 30 June 2007 £m**	12 months to 30 June 2006 £m
Depreciation of property, plant equipment and amortisation of software[1]	**1.6**	1.8
Amortisation of brands and technology	**11.0**	10.6
Goodwill impairment	**2.7**	2.4
Share based compensation – cash settled equity incentive schemes	**(0.2)**	2.0
Share based compensation – other	**2.4**	2.4
Foreign exchange (profit) loss	**0.2**	0.5
Operating lease expense		
– plant and machinery	**0.2**	0.3
– property	**3.1**	2.3

[1] The depreciation of plant, property and equipment and amortisation of software charged to the income statement differs to the movement in depreciation and amortisation shown in note 10 and 12 by £0.9 million (2006: £0.8 million) of depreciation incurred by internal development studios and treated as capitalised development cost.

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor and associated firms:

	12 months to 30 June 2007 £m	12 months to 30 June 2006 £m
Audit services		
Fees payable to the Company's auditor for the audit of the parent Company and consolidated annual accounts	**0.5**	0.4
Non-audit services		
Fees payable to the Company's auditor and associated firms for other services:		
– services relating to taxation compliance	**0.1**	–
– other services relating to corporate finance transactions	**0.2**	–
– all other services	**–**	0.1
Total auditor remuneration	**0.8**	0.5

Fees for non-audit services supplied by the Group's auditors comprised tax compliance work of £63,000, share issue due diligence services of £116,000 and £51,000 for due diligence services on acquisitions. All such work is allocated under a competitive tender process. A description of the work of the audit committee is set out in the corporate governance statement which includes an explanation on how auditor objectivity and independence is safeguarded when non-audit work is provided by the auditors.

5. Staff costs and numbers

The average monthly number of employees (including executive directors) was:	**12 months to 30 June 2007 Number**	12 months to 30 June 2006 Number
Sales, marketing and administration	**222**	272
Development	**645**	628
	867	900

At 30 June 2007 the Group had 228 employees in sales, marketing and administration and 743 in development.

Aggregate remuneration (including directors) comprised:	**£m**	£m
Wages and salaries	**32.4**	22.0
Social security costs	**3.2**	2.0
Share based compensation (see note 24)	**2.4**	2.4
Cash settled equity incentive schemes (see note 24)	**(0.4)**	2.0
Other pension costs	**1.2**	0.6
	38.8	29.0

Further disclosures relating to the remuneration of each individual director is included in the directors' remuneration report of which the information on pages 36 and 37 has been audited.

Key management remuneration (including directors):	**£m**	£m
Wages and salaries	**3.3**	2.6
Social security costs	**0.3**	0.3
Share based compensation (see note 24)	**0.5**	0.6
Gains on share options	**1.3**	0.4
Other pension costs	**0.3**	0.2
	5.7	4.1

There are 22 employees (excluding directors) defined as being key management for 2007 (2006: 16).

6. Exceptional charges

	12 months to 30 June 2007 £m	12 months to 30 June 2006 £m
Exceptional revenue provision		
Price protection charges	**(14.5)**	–
Exceptional administrative costs		
Restructuring costs of integrating Eidos and SCi	**–**	(0.7)
Settlement of a trade dispute	**(0.6)**	–
Exceptional development costs		
Write down of capitalised development costs	**(13.8)**	(1.1)
	(28.9)	(1.8)

Exceptional price protection charges

The Group's revenue is stated after deduction of price protection charges. Price protection charges are incurred by the Group when it mutually agrees with retailers to issue credit notes for products previously sold to retailers but not yet sold to the end customer. The Group's experience over a long period is that price protection charges average approximately 10% of gross sales to retailers. In the year to 30 June 2007 the Group experienced severe price pressure on platforms with declining popularity, particularly the Sony PlayStation® 2. As a result the Group incurred excess price protection charges of £14.5 million, resulting in a total charge of approximately 19% of gross sales to retailers. The Group regards this excess as exceptionally high.

Exceptional administrative costs

The Group incurred exceptional administrative costs of £0.6 million (2006: £0.7 million). This was incurred in relation to the settlement of a trade dispute. (2006: this cost related to redundancy costs arising from the integration of the Group's publishing activities).

On 24 January 2007 the Company announced in its trading update that, as in the 2006 financial year, our internal budget planned a loss in the first half of the year followed by a profit for the full year. However the Company made a loss for the financial year as a result of circumstances described above and in the business review on pages 11 to 24.

6. Exceptional charges continued

Exceptional development costs

Exceptional development costs of £1.1 million in 2006 relate to an unprofitable development contract entered into by Eidos prior to acquisition.

The Group has established a provision of £13.8 million in 2007 against the carrying value of capitalised development costs. This reflects the shortfall in net realisable value of the Group's investment in certain products and capitalised technologies. In setting the provision the Group has been particularly aware of the potential impact of slower than anticipated growth of the PlayStation® 3 platform on sales forecasts.

7. Tax on (loss) profit on ordinary activities	**12 months to 30 June 2007 £m**	12 months to 30 June 2006 £m
Current tax		
UK corporation tax at 30%	**(0.2)**	(0.2)
Overseas taxation		
Adjustment to the tax charge in respect of previous year	**–**	(2.6)
Deferred tax		
Origination and reversal of temporary differences	**2.1**	8.2
Taxation credit	**1.9**	5.4

The difference between the deferred tax credit for 2006 of £8.2 million and the movement in the deferred tax assets and liabilities in note 18 of £5.4 million relates to a £2.8 million movement on deferred tax liabilities which is a movement through goodwill rather than through the income statement. This amount pertains to intangible assets acquired on the acquisition of Eidos plc.

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to profits for the year are as follows:

	12 months to 30 June 2007 £m	12 months to 30 June 2006 £m
(Loss) profit on ordinary activities before taxation	**(30.0)**	8.1
(Loss) profit on ordinary activities at standard rate of UK Corporation tax rate (30%)	**(9.1)**	(2.4)
Effects of:		
– non taxable items	**0.2**	(3.8)
– short-term temporary differences	**(0.1)**	
– adjustment to the tax charge in respect of previous year	**(1.4)**	(0.2)
– share of tax in associate undertakings	**–**	–
– losses not recognised for deferred tax purposes	**6.4**	–
– recognition of losses and other deferred tax assets not previously recognised	**2.0**	12.5
– overseas tax rates	**0.1**	(0.7)
Total tax credit for the year	**(1.9)**	5.4

8. (Loss) earnings per share

Earnings per share has been calculated using the following:	**12 months to 30 June 2007** **Loss £m**	**Weighted average number of shares m**	12 months to 30 June 2006 Earnings £m	Weighted average number of shares m
Basic	**(28.1)**	**79.7**	13.5	72.9
Diluted	**(28.1)**	**79.7**	13.5	76.4

Weighted average number of shares	**2007 m**	2006 m
Weighed average number of shares used in the calculation of basic and adjusted earnings per share	**79.7**	72.9
Dilutive potential ordinary shares:		
– Employee share options	**–**	3.5
Weighted average number of shares used in the calculation of diluted basic and adjusted earnings per share	**79.7**	76.4

There is no potential dilution of the loss per ordinary share for 30 June 2007.
The number of potentially dilutive options as at 30 June 2007 is 5,412,274 (2006: 6,667,924).

9. Non-GAAP measures of performance

EBITDA before exceptional items and share based compensation	**12 months to 30 June 2007 £m**	12 months to 30 June 2006 £m
(Loss) profit from operations	**(31.4)**	7.8
Depreciation, amortisation and impairment charged to income statement	**15.3**	14.8
Exceptional items on face of consolidated income statement (see note 6)	**14.4**	1.8
Share based compensation	**2.2**	4.4
EBITDA before exceptional items and share based compensation	**0.5**	28.8
Exceptional items charged to revenue	**14.5**	–
EBITDA before all exceptional items and share based compensation	**15.0**	28.8

EBITDA before exceptional items and share based compensation is based on revenue of £144.0 million. This revenue figure is stated after deduction of exceptionally high price protection charges of £14.5 million (2006: £nil) arising from the hardware transition. Further details of this charge are set out in note 6. This charge is recorded as a deduction in arriving at revenue. Had this charge not been incurred then EBITDA before exceptional items and share based payment would have been £15.0 million (2006: £28.8 million).

10. Property, plant and equipment	Leasehold improvements £m	Equipment, vehicles and fixtures and fittings £m	Total £m
Cost			
1 July 2005	0.8	4.8	5.6
Additions	0.1	1.5	1.6
Disposals	(0.1)	(0.9)	(1.0)
30 June 2006	0.8	5.4	6.2
Depreciation			
1 July 2005	0.2	2.0	2.2
Charge for the year	0.3	1.4	1.7
Disposals	(0.1)	(0.8)	(0.9)
30 June 2006	0.4	2.6	3.0
Net book value			
30 June 2006	0.4	2.8	3.2
30 June 2005	0.6	2.8	3.4

	Leasehold improvements £m	Equipment, vehicles and fixtures and fittings £m	Total £m
Cost			
1 July 2006	0.8	5.4	6.2
Additions	1.2	4.2	5.4
Disposals	–	–	–
30 June 2007	**2.0**	**9.6**	**11.6**
Depreciation			
1 July 2006	0.4	2.6	3.0
Charge for the year	0.2	1.9	2.1
Disposals	–	–	–
30 June 2007	**0.6**	**4.5**	**5.1**
Net book value			
30 June 2007	**1.4**	**5.1**	**6.5**
30 June 2006	0.4	2.8	3.2

The net book value of tangible fixed assets at 30 June 2007 includes the amount of £nil (30 June 2006: £0.2 million) in respect of assets held under finance leases.

The depreciation charge for the year in respect of such assets was £0.2 million (12 months ended 30 June 2006: £0.3 million).

11. Goodwill	£m
Cost	
1 July 2005	7.7
Additions	
– Arising on acquisition of Eidos	2.0
30 June 2006	9.7
Additions	
– Morpheme and Proein	0.7
30 June 2007	**10.4**
Provisions	
1 July 2005	2.6
Impairment	2.4
30 June 2006	5.0
Impairment	2.7
30 June 2007	**7.7**
Net book value	
30 June 2007	**2.7**
30 June 2006	4.7
30 June 2005	5.1

The impairment figure in 2006 relates to the full write down of £2.4 million of goodwill associated to the Actualize Group. This group of companies has now been made dormant and is no longer expected to deliver any future economic benefits to the Group.

The impairment figure in 2007 relates to the full write down of £2.7 million of goodwill associated to the Pivotal acquisition. Goodwill has been impaired down to nil value in use, because the directors feel that the brands acquired in 2004 no longer have any future significant economic value, after taking into account projected net revenue streams discounted at the Company's cost of capital.

Goodwill calculations

Acquisition of Eidos (2006)

Goodwill arising in the 2006 financial year represents the acquisition of the remaining 9.98% of Eidos from its previous shareholders through the issue of shares in SCi Entertainment Group Plc. In calculating the goodwill, the fair value of the net assets of Eidos plc have been assessed. The provisional assessment is that no adjustments from book value are required. The calculation of goodwill is summarised in the table below:

Net assets acquired at book and fair value	£m
Plant, property and equipment	0.4
Intangible assets	14.4
Capitalised development costs	0.2
Investments in associates	0.2
Inventory	0.2
Trade and other receivables	3.9
Finance leases	(0.1)
Deferred tax liabilities	(7.6)
Trade and other payables	(3.1)
Provisions	(0.2)
Net assets acquired (non cash)	**8.3**
Net cash acquired	(0.7)
Net assets	**7.6**
Fair value of the consideration	11.7
Goodwill created on acquisition of minority interest	**4.1**
Release of contingent consideration	(2.1)
Goodwill created during the year	**2.0**

11. Goodwill continued

Acquisition of Proein SL (2007)

Goodwill arising in the 2007 financial year represents the acquisition of the remaining 25% of Proein SL from its previous shareholders in July 2006 for €3 million cash, which was paid in the year. In calculating the goodwill, the fair value of the net assets of Proein SL has been assessed. The provisional assessment is that no adjustments from book value are required. The calculation of goodwill is summarised in the table below:

Net assets acquired at book and fair value	£m
Plant, property and equipment	0.1
Intangible assets	–
Inventory	0.5
Trade and other receivables	1.1
Trade and other payables	(1.0)
Net assets acquired (non cash)	**0.7**
Net cash acquired	0.9
Net assets	**1.6**
Fair value of the consideration	2.1
Goodwill created on acquisition of minority interest	**0.5**

Acquisition of Morpheme Studios (2007)

Goodwill arising in the 2007 financial year represents the acquisition of the trade and assets of Morpheme Studios in March 2007 for £0.4 million cash. In calculating the goodwill, the fair value of the net assets of Morpheme has been assessed. The provisional assessment is that no adjustments from book value are required. The calculation of goodwill is summarised in the table below:

Net assets acquired at book and fair value	£m
Intangible assets	0.2
Net assets	**0.2**
Fair value of the consideration	0.4
Goodwill created on acquisition	**0.2**

Acquisition of the Rockpool Group (2007)

No goodwill has arisen from the acquisition of the Rockpool group of companies in February 2007 for £6.7 million in shares and cash. In calculating the goodwill, the fair value of the net assets of Rockpool has been assessed. The provisional assessment is that no adjustments from book value are required. The calculation of goodwill is summarised in the table below:

Net assets acquired at book and fair value	£m
Plant, property and equipment	–
Intangible assets	6.3
Trade and other receivables	0.5
Trade and other payables	(0.2)
Net assets acquired (non cash)	**6.6**
Net cash acquired	(0.1)
Net assets	**6.5**
Fair value of the consideration	6.3
Acquisition costs	0.2
Goodwill created on acquisition	**–**

The consideration comprised £0.7 million of cash and £0.5 million of shares in SCi Entertainment Group Plc issued on date of purchase and £5.1 million of contingent consideration, payable over the next three years, 58% in cash and 42% in shares in SCi Entertainment Group Plc.

11. Goodwill continued

Acquisition of Bluefish Media GmbH (2007)

No goodwill has arisen from the acquisition of Bluefish Media GmbH from its previous shareholders on 1 January 2007 for €3 million, payable in cash and shares. In calculating the goodwill, the fair value of the net assets of Bluefish has been assessed. The provisional assessment is that no adjustments from book value are required. The calculation of goodwill is summarised in the table below:

Net assets acquired at book and fair value	£m
Intangible assets	1.9
Trade and other receivables	0.2
Trade and other payables	(0.2)
Net assets acquired (non cash)	**1.9**
Net cash acquired	–
Net assets	**1.9**
Fair value of the consideration	1.9
Goodwill created on acquisition	**–**

The consideration comprised £0.8 million cash payable on purchase and then £1.1 million payable over the next three years, 43% in cash and 57% in shares in SCi Entertainment Group Plc.

12. Other intangible assets	Brands £m	Technology £m	Software £m	Total intangible assets £m
Cost				
1 July 2005	69.2	47.7	0.9	117.8
Additions	–	–	0.6	0.6
30 June 2006	69.2	47.7	1.5	118.4
Disposals	–	–	–	–
Additions – acquired with subsidiary undertakings	–	8.2	0.2	8.4
30 June 2007	**69.2**	**55.9**	**1.7**	**126.8**
Amortisation				
1 July 2005	0.5	0.7	–	1.2
Charge for the year	4.6	6.0	0.9	11.5
30 June 2006	5.1	6.7	0.9	12.7
Charge for the year	4.6	6.4	0.4	11.4
30 June 2007	**9.7**	**13.1**	**1.3**	**24.1**
Net book value				
30 June 2007	**59.5**	**42.8**	**0.4**	**102.7**
30 June 2006	64.1	41.0	0.6	105.7
30 June 2005	68.7	47.0	0.9	116.6

13. Capitalised development costs	Engines and technology £m	Games £m	Total £m
30 June 2005	–	16.8	16.8
Capitalised in the year	2.7	54.7	57.4
Charged in the year	–	(28.1)	(28.1)
30 June 2006	2.7	43.4	46.1
Capitalised in the year	22.7	45.8	68.5
Charged in the year	–	(32.8)	(32.8)
30 June 2007	**25.4**	**56.4**	**81.8**

14. Investments in associates and subsidiary undertakings

The Group had the following investments in associated undertakings:

	£m
Cost	
30 June 2005 and 30 June 2006	0.3
Addition in the year	0.1
30 June 2007	**0.4**
Share of retained profits	
30 June 2005	0.4
(Loss) for the year	(0.1)
Moved to assets held for resale (note 17)	(0.2)
30 June 2006	0.1
Profit for the year	0.1
30 June 2007	**0.2**
Net book value	
30 June 2007	**0.6**
30 June 2006	0.4
30 June 2005	0.7

The parent Company had investments in the following principal undertakings, each of which has an accounting reference date of 30 June apart from Rocksteady Studios Ltd which has an accounting reference date of 30 September.

	Principal activity	Holding %	Class	Country of registration and operation
Subsidiary undertakings				
Eidos Ltd	Holding company	100*	Ordinary	England
Eidos Interactive Ltd	Developer and publisher of interactive entertainment software	100	Ordinary	England
Pivotal Games Ltd	Developer of interactive entertainment software	100*	Ordinary	England
Eidos Inc	Distributor of interactive entertainment software	100	Ordinary	USA
Eidos Sarl	Distributor of interactive entertainment software	100	Ordinary	France
Eidos GmbH	Distributor of interactive entertainment software	100	Ordinary	Germany
Proein SL	Distributor of interactive entertainment software	100	Common shares	Spain
Crystal Dynamics Inc	Developer of interactive entertainment software	100	Ordinary	USA
Io interactive AS	Developer of interactive entertainment software	100	Ordinary	Denmark
Eidos Hungary Kft	Developer of interactive entertainment software	100	Ordinary	Hungary
Eidos Studios, Sweden AB	Developer of interactive entertainment software	100	Ordinary	Sweden
Rockpool Group of companies (comprising Rockpool Games Ltd, Ironstone Partners Ltd and Sogoplay Ltd)	Developer of interactive entertainment software	100	Ordinary	England
Bluefish Media GmbH	Online distributor of interactive entertainment software	100	Ordinary	Germany
Associate undertakings				
Rocksteady Studios Ltd	Developer of interactive entertainment software	25.1	Ordinary	England
Io Interactive Hungary Kft†	Dormant company	51	Ordinary	Hungary

* Held directly by the parent Company.
† This has not been treated as a subsidiary as the Group does not have control over the undertaking.

15. Inventory	**30 June 2007 £m**	30 June 2006 £m
Finished goods	**7.2**	5.2

Cost of sales includes £48.7 million (2006: £53.8 million) which relates to manufacturing costs and cost of goods scrapped.

16. Trade and other receivables	**30 June 2007 £m**	30 June 2006 £m
Trade debtors	**31.8**	52.5
Prepayments and accrued income	**3.8**	1.8
Other debtors	**5.7**	2.9
Amount due from associated undertaking	**–**	0.3
	41.3	57.5

The amount due from associated undertaking represented a loan to Rocksteady Studios Ltd.

17. Assets classified as held for resale

The asset held for sale at 30 June 2006 is the 26.7% investment in Pyro Studios SL. This was sold to its majority shareholder in July 2006, for £0.8 million, realising a profit to the Group of £0.6 million.

18. Deferred tax assets and liabilities

At 30 June 2007 the Group had substantial tax losses carried forward subject to the agreement of the tax authorities in various tax jurisdictions.

Movement in deferred tax balance	30 June 2005 £m	Movement in the period £m	30 June 2006 £m	Movement in the period £m	**30 June 2007 £m**
Tax losses	13.1	1.2	14.3	(1.0)	**13.3**
Brands and technology	(31.8)	0.5	(31.3)	3.6	**(27.7)**
Short-term temporary differences	–	3.7	3.7	(2.4)	**1.3**
Recognised deferred tax assets (liabilities)	**(18.7)**	**5.4**	**(13.3)**	**0.2**	**(13.1)**
Presented as:					
Deferred tax asset	0.3	1.8	2.1	(2.0)	**0.1**
Deferred tax liability	(19.0)	3.6	(15.4)	2.2	**(13.2)**
Total	**(18.7)**	**5.4**	**(13.3)**	**0.2**	**(13.1)**
Movement in unrecognised deferred tax balance					
Tax losses	8.7	(2.3)	6.4	1.8	**8.2**
Other short-term temporary differences	0.9	(0.9)	–	8.0	**8.0**
Unrecognised deferred tax assets (liabilities)	**9.6**	**(3.2)**	**6.4**	**9.8**	**16.2**

19. Trade and other payables	**30 June 2007 £m**	30 June 2006 £m
Trade creditors	**12.2**	19.6
Royalty creditors	**14.2**	6.9
Other creditors	**3.6**	3.1
Obligations under finance leases (see note 26)	**–**	0.2
	30.0	29.8

20. Tax liabilities	**30 June 2007 £m**	30 June 2006 £m
Taxation and social security	**2.9**	2.6
Corporation tax	**1.2**	4.7
	4.1	7.3

21. Current provisions	Returns provision £m
30 June 2006	15.0
Reclassified to trade debtors	(5.3)
Charged to the income statement in the year	18.8
Charged as exceptional	14.5
Utilised during the year	(34.9)
30 June 2007	**8.1**

As at 30 June 2006 and 2007

Returns provision

As at 30 June 2007 a provision against the return of goods sold and future price protection of £8.1 million (2006: £15.0 million) related to sales made during the year and hence has been charged to the income statement during this period. This provision also includes rebates due to retailers which are paid quarterly. This provision will be released as the games are returned or price protected, or the quarterly rebate amount paid, and is expected to be fully used or released in the 2008 financial year.

22. Non current provisions

Contingent consideration

Consideration as at 30 June 2007 is payable in relation to the purchase of Rockpool Games Ltd (and associated companies) and Bluefish Media GmbH, which is deemed payable over the next 1-3 years and has been accrued for as the directors believe that it is probable that these amounts will be payable in the future. The £6.2 million contingent consideration, arising during the year, has been charged to goodwill.

23. Called-up share capital	**30 June 2007 £m**	30 June 2006 £m
Authorised		
97,000,000 (2006: 97,000,000) ordinary shares of 5p each	**4.9**	4.9
Allotted, called-up and fully-paid		
86,470,185 ordinary shares of 5p each (2006: 76,162,376 ordinary shares of 5p each)	**4.3**	3.8

The movement in share capital was as follows:	**2007 Number of shares m**	**2007 £m**	2006 Number of shares m	2006 £m
At beginning of the year	**76.2**	**3.8**	69.4	3.5
Share subscription by Warner Bros.	**8.9**	**0.4**	3.5	0.2
Issue of shares to acquire Eidos	**–**	**–**	3.0	0.1
Issue of shares to acquire Rockpool	**0.1**	**–**	–	–
Issue of new shares under SCi 1996 Share Option Plan	**1.3**	**0.1**	0.3	–
At end of the year	**86.5**	**4.3**	76.2	3.8

During the year 8,860,987 shares were issued to Warner Bros. Entertainment under a share subscription agreement, 113,672 shares were issued in relation to the purchase of the Rockpool Group and 1,333,150 shares were issued under the SCi 1996 Share Option Plan. The market price on 15 December 2006, the date on which the terms of the share subscription by Warner Bros. Entertainment were agreed, was 500p per share.

24. Share based compensation

SCi 1996 Share Option Plan

The Company operates an unapproved share option plan. At 30 June 2007, options were outstanding over 5,522,274 shares, including options held by directors. The options are exercisable if certain performance criteria are met, as set by the remuneration committee, which relate to share price performance compared with the FTSE Media Index.

Scheme number	Number of shares over which options granted 30 June 2006	Granted in the period	Exercised in the period	Lapsed in the period	Number of shares over which options granted 30 June 2007	Of which exercisable	Exercise price (pence)	Exercise period
1	175,000	–	(175,000)	–	–	–	39.0	11 December 2001 to 11 December 2005*
2	41,000	–	(41,000)	–	–	–	56.5	8 March 2002 to 8 March 2006*
4	17,500	–	–	–	17,500	17,500	47.5	18 July 2004 to 18 July 2008
5	240,000	–	–	–	240,000	240,000	81.0	20 August 2004 to 20 August 2008
6	20,000	–	–	–	20,000	20,000	85.0	1 October 2004 to 1 October 2008
7	19,000	–	(19,000)	–	–	–	57.0	13 September 2005 to 13 September 2009
8	312,000	–	(62,000)	–	250,000	250,000	72.0	16 June 2006 to 16 June 2010
9	473,500	–	(462,350)	–	11,150	11,150	103.5	23 October 2006 to 23 October 2010
10	3,800	–	(3,800)	–	–	–	117.0	25 March 2007 to 25 March 2011
11	185,174	–	(55,000)	(1,500)	128,674	128,674	125.5	31 March 2007 to 31 March 2011
12	720,600	–	–	(1,000)	719,600	–	100.5	27 August 2007 to 27 August 2011
13	86,000	–	–	(8,000)	78,000	–	230.0	17 December 2007 to 17 December 2011
14	8,000	–	–	–	8,000	–	273.5	2 February 2008 to 2 February 2012
15	8,000	–	–	–	8,000	–	361.5	28 April 2008 to 28 April 2012
16	4,163,350	–	–	(361,000)	3,802,350	–	333.5	30 June 2008 to 30 June 2012
17	10,000	–	–	–	10,000	–	404.0	1 August 2008 to 1 August 2012
18	65,000	–	–	–	65,000	–	515.0	11 October 2008 to 11 October 2012
19	75,000	–	–	–	75,000	–	484.0	17 October 2008 to 17 October 2012
20	20,000	–	–	–	20,000	–	540.0	1 November 2008 to 1 November 2012
21	25,000	–	–	–	25,000	–	560.0	11 January 2009 to 11 January 2013
27	–	44,000	–	–	44,000	–	475.0	17 July 2009 to 17 July 2013
	6,667,924	**44,000**	**(818,150)**	**(371,500)**	**5,522,274**	**667,324**		

* During the previous period the remuneration committee amended the rules of the SCi 1996 Share Option Plan to extend the exercise period of options granted on 11 December 1998 and 8 March 1999 where, immediately prior to the expiry of the exercise period, the Company was in a close period or otherwise subject to a prohibition on share dealing by directors. In such circumstances the exercise period was extended until one month following the end of such period.

24. Share based compensation continued

Peel Hunt Options

Pursuant to an agreement dated 18 March 2005 in respect of its services provided as financial adviser, sponsor and broker, SCi granted to KBC Peel Hunt, options to subscribe for 500,000 new SCi Shares at 300p per share (scheme number 22). The options were exercisable, in whole or in part, at any time up to 16 November 2006 and were exercised on 2 November 2006.

Scheme number	Number of shares over which options granted 30 June 2006	Granted in the period	Exercised in the period	Lapsed in the period	Number of shares over which options granted 30 June 2007	Of which exercisable	Exercise price (pence)	Exercise period
22	500,000	–	(500,000)	–	–	–	300.0	Up to 16 November 2006

Phantom schemes

In addition to the SCi 1996 Share Option Plan the Group operates a cash settled equity incentive plan for certain employees, principally in the United States. Cash awards under this scheme are based on movements in the Group's share price. No directors are included in this scheme.

Scheme number	Number of shares over which options granted 30 June 2006	Granted in the period	Exercised in the period	Lapsed in the period	Number of shares over which options granted 30 June 2007	Of which exercisable	Exercise price (pence)	Exercise period
23	623,043	–	(97,457)	(40,778)	484,808	–	333.5	30 June 2008 to 30 June 2011
24	10,000	–	–	–	10,000	–	333.5	11 October 2008 to 11 October 2011
25	105,834	–	(4,166)	(18,334)	83,334	–	466.0	11 October 2008 to 11 October 2011
26	75,000	–	–	–	75,000	–	511.0	16 January 2009 to 16 January 2012
28	–	30,000	–	–	30,000	–	448.0	1 August 2009 to 1 August 2013
29	–	48,333	–	(8,666)	39,667	–	481.0	1 October 2008 to 1 October 2011
30	–	45,833	–	(8,666)	37,167	–	481.0	1 October 2009 to 1 October 2011
31	–	45,833	–	(8,666)	37,167	–	481.0	1 October 2010 to 1 October 2011
32	–	1,000	–	–	1,000	1,000	507.0	6 December 2006 to 6 December 2010
33	–	25,000	–	–	25,000	–	460.0	18 May 2009 to 18 May 2013
34	–	25,824	–	–	25,824	–	466.0	31 March 2008 to 31 March 2012
35	–	25,824	–	–	25,824	–	466.0	31 March 2009 to 31 March 2012
36	–	25,824	–	–	25,824	–	466.0	31 March 2010 to 31 March 2012
	813,877	**273,471**	**(101,623)**	**(85,110)**	**900,615**	**1,000**		

The market price of the ordinary shares at 6 July 2007 was 518.5p and the range during the year was 419p to 525p. All share options granted during the year were issued at market value.

The weighted average share price of shares exercised in the year was 495p.

The weighted average remaining contractual life of share options outstanding as at 30 June 2007 is 4.5 years (30 June 2006: 5.3 years).

24. Share based compensation continued

Details of the fair value of share options granted in the year under the schemes operated by the Group are as follows:

Scheme number	Scheme name	Option pricing model used	Share price at grant date (pence)	Exercise price (pence)	Estimated period to exercise of options (years)	Expected volatility	Risk-free interest rate
27	1996 Share Option Plan 17/07/06	Binomial	465	475	3.0	40%	5.71%
28	Equity Incentive Plan 1/08/06	Binomial	442	448	3.0	40%	5.71%
29	Equity Incentive Plan 1/10/06	Binomial	482	481	1.0	40%	5.71%
30	Equity Incentive Plan 1/10/06	Binomial	482	481	2.0	40%	5.71%
31	Equity Incentive Plan 1/10/06	Binomial	482	481	3.0	40%	5.71%
32	Equity Incentive Plan 6/12/06	Binomial	506	507	3.0	40%	5.71%
33	Equity Incentive Plan 18/05/07	Binomial	500	460	3.0	40%	5.71%
34	Equity Incentive Plan 31/03/07	Binomial	470	468	1.0	40%	5.71%
35	Equity Incentive Plan 31/03/07	Binomial	470	468	2.0	40%	5.71%
36	Equity Incentive Plan 31/03/07	Binomial	470	468	3.0	40%	5.71%

Volatility based on share price data over 3 years.

Charge recorded in the financial statements of the Group is:	**2007 £m**	2006 £m
Phantom schemes	**(0.2)***	2.0
Share based payment schemes	**2.4**	2.4
	2.2	4.4

* £0.4 million has been credited to the balance sheet in respect of phantom schemes. Of this a credit of £0.2 million related to phantom options awarded to staff in internal development studios and their share based compensation expense has been capitalised in the costs of the games they have worked upon.

25. Reserves and changes in equity

SCi Entertainment Group Plc has the following reserves:

	Share capital £m	Share premium £m	Merger reserve £m	Capital reserve £m	Foreign currency translation reserve £m	Share based comp-ensation £m	Employee benefit trust share reserve £m	Retained profit £m	Total £m
1 July 2005	3.5	57.4	69.9	6.3	–	0.3	(0.9)	1.5	138.0
Profit for the year	–	–	–	–	–	–	–	13.4	13.4
Charged to equity									
New shares issued	0.2	17.4	–	–	–	–	–	–	17.6
Share issue costs	–	(0.2)	–	–	–	–	–	–	(0.2)
Issue of shares for remaining 10% of Eidos	0.1	–	11.4	–	–	–	–	–	11.5
Share based compensation	–	–	–	–	–	4.4	–	–	4.4
Foreign exchange	–	–	–	–	0.5	–	–	–	0.5
Total charged to equity	0.3	17.2	11.4	–	0.5	4.4	–	–	33.8
Total income and expense for the year	0.3	17.2	11.4	–	0.5	4.4	–	13.4	47.2
30 June 2006	3.8	74.6	81.3	6.3	0.5	4.7	(0.9)	14.9	185.2
Loss for the year	–	–	–	–	–	–	–	(28.1)	(28.1)
Charged to equity									
New shares issued	0.5	46.6	–	–	–	–	–	–	47.1
Share issue costs	–	(0.9)	–	–	–	–	–	–	(0.9)
Share based compensation	–	–	–	–	–	2.4	–	–	2.4
Share based compensation moved to liabilities*	–	–	–	–	–	(2.0)	–	–	(2.0)
Foreign exchange	–	–	–	–	(1.1)	–	–	–	(1.1)
Total charged to equity	0.5	45.7	–	–	(1.1)	0.4	–	–	45.5
Total income and expense for the year	0.5	45.7	–	–	(1.1)	0.4	–	(28.1)	17.4
30 June 2007	**4.3**	**120.3**	**81.3**	**6.3**	**(0.6)**	**5.1**	**(0.9)**	**(13.2)**	**202.6**

*Transfer to liabilities of amounts in respect of cash settled overseas staff equity schemes previously classified within reserves.

Share premium	Amount subscribed for share capital in excess of nominal value.
Merger reserve	In the 9 months to 30 June 2005 the Company exercised the exemption provided under Section 131 of the Companies Act 1985 not to recognise the premium on the issue of shares issued in order to acquire at least 90% of Eidos plc. As a result, the associated £69.4 million of fair value of shares issued in excess of the nominal value has been transferred to the merger reserve. In 2006, the remaining 9.96% was purchased and the £11.4 million of fair value of the shares in excess of the nominal value was also charged to the merger reserve.
Capital reserve	During the year ended 30 September 2004, the Company completed a capital reduction to restructure the Group's reserves. Accordingly the balance of the share premium account of £28.3 million at 30 September 2003 has been eliminated with £6.3 million being transferred to a capital reserve and the balance credited against accumulated losses in the retained earnings reserve.
Foreign currency translation reserve	Reserve includes the movement on overseas foreign currency retained profits reserves and revaluation of intercompany provisions and investments.
Share based compensation reserve	Reserve contains the value of share based compensation awards, which are charged to the income statement over the life of the awards, but which have no cash impact.
Employee benefit trust share reserve	Reserve containing shares held by an Employee Benefit Trust for the purpose of satisfying the exercise of awards under the Company's share option plan.
Retained profits	Cumulative net gains and losses recognised in the consolidated income statement.

26. Leases

Finance leases

Future lease payments are due as follows:	Minimum lease payments 2007 £m	Interest 2007 £m	Present value 2007 £m (net)
Not later than one year	–	–	–
Total	**–**	**–**	**–**

	Minimum lease payments 2006 £m	Interest 2006 £m	Present value 2006 £m (net)
Not later than one year	0.2	–	0.2
Total	0.2	–	0.2

The present value of future lease payments are analysed as:	**2007**	2006
Current liabilities	**–**	0.2
Non-current liabilities	**–**	–
Total	**–**	0.2

Operating leases

The total future minimum rentals payable under operating leases in respect of the total lives of the leases are:

	2007 Land and buildings	**2007 Other**	2006 Land and buildings	2006 Other
Within one year	**2.3**	**0.2**	2.7	0.2
Within two to five years	**3.7**	**0.2**	6.0	0.2
After five years	**2.1**	**–**	7.8	–
Total	**8.1**	**0.4**	16.5	0.4

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.

27. Financial commitments
There were no capital commitments contracted at the balance sheet date.

28. Financial instruments – risk management and numerical information
The Group is exposed through its operations to one or more of the following financial risks:
> Fair value or cash flow interest rate risk
> Liquidity risk
> Credit risk
> Foreign currency risk

The policy to address each of the above risks is described in more detail below.

Fair value or cash flow interest rate risk
Surplus cash throughout the Group is put on short-term deposit where appropriate, at floating rates. The Board constantly monitors the financial markets and the Group's future borrowing requirements to ensure that this policy is exercised in the Group's best interests.

Liquidity risk
Liquidity risk is managed centrally on a Group basis. Bank facilities are agreed at appropriate levels having regard to the Group's forecast operating cash flows and future capital expenditure.

Credit risk
The Group faces credit risk due to the credit it extends to retailers. Credit limits are agreed and closely monitored on a local level and credit insurance is held against some bad debts.

Foreign currency risk
The Group earns income and incurs expenditure throughout the world in a variety of currencies. Foreign currency risk is managed by a variety of methods including forward contracts and swap arrangements.

The Company has commercial hedges but does not hedge account. Further details of financial instruments, liquidity risk, credit risk and foreign currency risk can be found on page 23 and 24 of the operating and financial review.

28. Financial instruments – risk management and numerical information continued

Numerical information

Financial assets

The financial assets of the Group comprised:	**30 June 2007 £m**	30 June 2006 £m
Cash and cash equivalents		
– Sterling	**15.6**	11.2
– US dollar	**6.6**	13.6
– Euro	**8.5**	11.8
– Other	**0.7**	0.6
	31.4	37.2
Trade and other receivables	**41.3**	57.5
Current financial assets	**72.7**	94.7
Total financial assets	**72.7**	94.7

Cash and cash equivalents include balances held on which interest is received at floating rates in the overnight money market. Rates of interest earned on cash balances varied between 0 and 6.2% (2006: 0 to 5.1%)

Financial liabilities

The financial liabilities of the Group comprised:	**30 June 2007 £m**	30 June 2006 £m
Income tax liabilities	**4.1**	7.3
Trade and other payables	**30.0**	29.8
Accruals and deferred income	**10.1**	8.0
Provisions	**8.1**	15.0
Current financial liabilities	**52.3**	60.1
Finance lease debt	**–**	–
Long-term financial liabilities	**–**	–
Total financial liabilities	**52.3**	60.1

All financial liabilities are interest free.

In the opinion of the directors, there is no difference between the book value and the fair value of any of the above assets or liabilities.

Borrowing facilities and maturity of financial liabilities

At 30 June 2007, the Group had an agreed overdraft facility of £20 million. The facility bears interest at 1% over UK base rate.

Foreign currency risk disclosures

The Group receives significant revenues in either euros or US dollars. The Group’s policy is to eliminate significant currency exposures through natural hedges by transacting for sales and purchases in the same currency and by forward contracts. At 30 June 2006 and 2007 the Group had no hedging transactions.

29. Related party transaction

a) Transactions with associated undertakings

During the year the Group paid £2.9 million to its associated undertakings as royalties and advances on games being developed for the Group (2006: £6.9 million).

In the year to 30 June 2007 the Group paid £2.9 million to Rocksteady Studios Ltd, an associated undertaking in which the Group has an interest of 25.1%, as advances for the development of games for the Group (2006: £3.0 million). At 30 June 2007, the Group was owed £nil million by Rocksteady Studios Ltd (see note 16) (2006: £0.3 million).

In the year to 30 June 2006, the Group paid £3.9 million to the joint venture Pyro Studios SL as royalties and advances for the development of games for the Group. At 30 June 2006, the Group was owed £0.1 million by Pyro Studios SL. In July 2006, the Group sold its share in Pyro Studios SL.

b) Directors and key management remuneration

Details of amounts paid to directors and key management is set out in note 5 and in the directors' remuneration report on page 36.

30. Contingent assets and liabilities

The Company and its subsidiaries are defendants in a number of legal proceedings incidental to its operations. Other than already provided for in the financial statements, the Company does not expect the outcome of such proceedings, either individually or in aggregate, to have a material effect upon the results of the Company's operations or its financial position.

Company balance sheet under UK GAAP

at 30 June 2007

	Notes	30 June 2007 £m	30 June 2006 Restated £m
Fixed assets			
Investments	ii	**92.0**	9.6
		92.0	9.6
Current assets			
Debtors	iii	**15.5**	65.8
Cash at bank and in hand		**17.1**	6.1
		32.6	71.9
Creditors: amounts falling due within one year	iv	**(1.4)**	(0.7)
Net current assets		**31.2**	71.2
Total assets less current liabilities		**123.2**	80.8
Net assets		**123.2**	80.8
Capital and reserves			
Called-up equity share capital	v	**4.3**	3.8
Share premium account	v	**120.3**	74.6
Capital reserve	v	**6.3**	6.3
Share based compensation	v	**5.1**	4.7
Profit and loss account	v	**(12.8)**	(8.6)
Shareholders' funds	v	**123.2**	80.8

The notes on pages 72 to 75 form part of the Company UK GAAP financial statements,

These financial statements were approved by the Board of directors and authorised for issue on 7 December 2007 and signed on its behalf by:

Phil Rogers
Director

Notes to the UK GAAP financial statements

for the 12 months to 30 June 2007

i. Accounting policies

The principal accounting policies of the Company are summarised below.

Basis of accounting

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

As provided by Section 230 of the Companies Act 1985, no profit and loss account is presented in respect of SCi Entertainment Group Plc.

Accounting periods

The accounting reference date of the Company is 30 June. The current years results are for the period to 6 July 2007. The comparative years results are for the year to 30 June 2006.

Fixed asset investments

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

Investments are stated at cost plus direct acquisition costs. Where consideration is represented by new share issues, under Section 131 of the Companies Act 1985, the Company has elected to show the associated cost of investment as being the nominal value of the shares issued.

Taxation

Corporation tax payable is provided on taxable profits at prevailing rates.

Long-term incentive plan for executive directors

Future payments under the Company's long-term incentive plan are estimated and charged to the profit and loss account over the period to which they relate.

Pensions

For defined contribution schemes, the amount charged to the profit and loss account in respect of pension costs 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.

Share based employee remuneration

Stock option plans enable the employees of the Company and its subsidiaries to participate in the success of the Company by acquiring shares. The Company recognises a charge to the profit and loss account in respect of share options based on the fair value of the awarded options at the date of grant. This expense is recognised over the relevant vesting periods, adjusted to reflect the actual and expected levels of vesting. The fair value of the options is assessed using a binomial model that takes account if the terms and conditions of the options as defined when they are awarded. The charge for share options issued in relation to subsidiary employees are dealt with in the accounts of those companies, under their local accounting rules.

Financial instruments

Financial assets and liabilities are initially measured at fair value.

ii) Investments

The Company has the following investments:

All amounts are shown at cost	**30 June 2007 £m**	30 June 2006 £m
Subsidiary undertakings:		
– shares	**92.0**	6.1
– loans	**–**	3.5
	92.0	9.6

At 30 June 2007, the principal undertakings of SCi Entertainment Group Plc are detailed in note 14 of the IFRS financial statements.

iii) Debtors	**30 June 2007 £m**	30 June 2006 £m
Amounts due from subsidiary undertakings	**15.3**	65.8
Other debtors	**0.2**	–
	15.5	65.8

iv) Creditors: amounts falling due within one year	**30 June 2007 £m**	30 June 2006 £m
Trade creditors	**0.6**	0.2
Accruals and deferred income	**0.8**	0.5
	1.4	0.7

v) Share capital and reserves	30 June 2007 £m	30 June 2006 £m
Authorised		
97,000,000 (2006: 97,000,000) ordinary shares of 5p each	**4.9**	4.9
Allotted, called-up and fully-paid		
86,470,185 ordinary shares of 5p (2006: 76,162,376 ordinary shares of 5p each)	**4.3**	3.8

The movement in share capital was as follows:	2007 Number of shares m	2007 £m	2006 Number of shares m	2006 £m
At beginning of the year	**76.2**	**3.8**	69.4	3.5
Share subscription by Warner Bros.	**8.9**	**0.4**	3.5	0.2
Issue of shares to acquire Eidos	**–**	**–**	3.0	0.1
Issue of shares to acquire Rockpool	**0.1**	**–**	–	–
Issue of new shares under SCi 1996 Share Option Plan	**1.3**	**0.1**	0.3	–
At end of the year	**86.5**	**4.3**	76.2	3.8

Details of shares issued in the year are given in note 23 of the consolidated financial statements.

	Share premium account £m	Capital reserve £m	Share based compensation £m	Profit and loss account £m
1 July 2006	74.6	6.3	4.7	(8.6)
(Loss) for the period	–	–	–	(4.2)
Share based compensation	–	–	0.4	–
New shares issued	46.6	–	–	–
Share issue costs	(0.9)	–	–	–
30 June 2007	**120.3**	**6.3**	**5.1**	**(12.8)**

Reconciliation of movement in shareholders funds	30 June 2007 £m	30 June 2006 £m
Opening shareholders funds	**80.8**	63.1
(Loss) for the financial period	**(4.2)**	(4.2)
Share based compensation	**0.4**	4.4
New shares issued	**46.2**	17.5
Closing shareholders funds	**123.2**	80.8

vi) Share based compensation

SCi 1996 Share Option Plan

The Company operates an unapproved share option plan. At 30 June 2007, options were outstanding over 2,359,174 shares, including options held by directors. The options are exercisable if certain performance criteria are met, as set by the remuneration committee, which relate to share price performance compared with the FTSE Media Index.

Scheme number	Number of shares over which options granted 30 June 2006	Granted in the period	Exercised in the period	Lapsed in the period	Number of shares over which options granted 30 June 2007	Of which exercisable	Exercise price (pence)	Exercise period
1	175,000	–	(175,000)	–	–	–	39.0	11 December 2001 to 11 December 2005*
2	41,000	–	(41,000)	–	–	–	56.5	8 March 2002 to 8 March 2006*
4	17,500	–	–	–	17,500	17,500	47.5	18 July 2004 to 18 July 2008
5	240,000	–	–	–	240,000	240,000	81.0	20 August 2004 to 20 August 2008
6	20,000	–	–	–	20,000	20,000	85.0	1 October 2004 to 1 October 2008
7	1,000	–	(1,000)	–	–	–	57.0	13 September 2005 to 13 September 2009
8	250,000	–	–	–	250,000	250,000	72.0	16 June 2006 to 16 June 2010
11	128,674	–	–	–	128,674	128,674	125.5	31 March 2007 to 31 March 2011
12	505,000	–	–	–	505,000	–	100.5	27 August 2007 to 27 August 2011
13	14,000	–	–	–	14,000	–	230.0	17 December 2007 to 17 December 2011
16	1,118,000	–	–	(29,000)	1,089,000	–	333.5	30 June 2008 to 30 June 2012
19	75,000	–	–	–	75,000	–	484.0	17 October 2008 to 17 October 2012
20	20,000	–	–	–	20,000	–	540.0	1 November 2008 to 1 November 2012
	2,605,174	**–**	**(217,000)**	**(29,000)**	**2,359,174**	**656,174**		

* During the previous period the remuneration committee amended the rules of the SCi 1996 Share Option Plan to extend the exercise period of options granted on 11 December 1998 and 8 March 1999 where, immediately prior to the expiry of the exercise period, the Company was in a close period or otherwise subject to a prohibition on share dealing by directors. In such circumstances the exercise period was extended until one month following the end of such period.

Phantom schemes

In addition to the SCi 1996 Share Option Plan the Group operates a cash settled equity incentive plan for certain employees. Cash awards under this scheme are based on movements in the Group's share price. No directors are included in this scheme.

Scheme number	Number of shares over which options granted 30 June 2006	Granted in the period	Exercised in the period	Lapsed in the period	Number of shares over which options granted 30 June 2007	Of which exercisable	Exercise price (pence)	Exercise period
28	–	30,000	–	–	30,000	–	448.0	1 August 2009 to 1 August 2013

The market price of the ordinary shares at 6 July 2007 was 518.5p and the range during the year was 419p to 525p. All share options granted during the year were issued at market value.

The weighted average share price of shares exercised in the year was 474p.

The weighted average remaining contractual life of share options outstanding as at 30 June 2007 is 4.1 years.

Details of the fair value of share options granted in the year under the schemes operated by the Group are as shown in note 24 of the consolidated statements.

Volatility based on share price data over 3 years.

vi) Share based compensation continued

Share based compensation

(Credit) charge recorded in the financial statements of the parent Company is:	**2007 £m**	2006 £m
Phantom schemes	**(2.1)**	2.0
Share based payment schemes	**(1.2)**	2.4
	(3.3)	4.4

The credit in 2007 represents the recharge of the share based compensation relating to employees of subsidiary companies.

vii) Loss attributable to SCi Entertainment Group Plc

The loss for the 12 months to 30 June 2007 dealt with in the financial statements of the parent Company, SCi Entertainment Group Plc, was £4.2 million (12 months to 30 June 2006: loss of £4.2 million).

viii) Employees costs and numbers

The average number of people employed by the Company (including directors) during the year was as follows:

	2007 Number	2006 Number
Management and administration	**23**	23

Staff costs (including directors) comprise:	**£m**	£m
Wages and salaries	**2.8**	1.3
Defined pension costs	**0.2**	0.2
Employers national insurance and similar taxes	**0.5**	0.1
Total	**3.5**	1.6

Please refer to note 5 of the notes to the consolidated financial statements on page 53 for further details of the director's remuneration.

ix) Related party transactions

The Company has exercised the exemption provided under FRS8 in respect of subsidiaries which have been consolidated in the consolidated financial statements.

Shareholder information

Shareholder analysis

As at 7 December 2007, the number of registered shareholders was 4,525 and the number of ordinary shares in issue was 86,875,247.

	Number of shareholders	Percentage of total shareholders	Number of shares (million)	Percentage of total shares
Range of holdings:				
1 to 1,500	4,051	89.5	0.8	1.0
1,501 to 5,000	195	4.3	0.5	0.6
5,001 to 10,000	55	1.2	0.4	0.5
10,001 to 50,000	112	2.5	2.7	3.1
50,001 to 100,000	29	0.6	1.9	2.2
100,001 to 250,000	35	0.8	5.5	6.4
250,001 to 500,000	15	0.3	5.3	6.1
500,001 to 1,000,000	13	0.3	9.3	10.7
1,000,000 to highest	20	0.4	60.2	69.3
Total	**4,525**	**100.0**	**86.8**	**100.0**
Held by:				
Individuals	3,850	85.1	6.5	7.5
Institutions and companies	675	14.9	80.3	92.5
Total	**4,525**	**100.0**	**86.8**	**100.0**

Shareholder enquiries

Enquiries concerning shareholdings, change of address or other particulars, should be directed in the first instance to the Company's registrars, Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire HD8 0LA (Tel: +44 (0)871 664 0300). Capita also provide a range of online shareholder information services at www.capitaregistrars.com where shareholders can check their holdings and find practical help on transferring shares and updating personal details.

Share dealing service

An internet and telephone share dealing service operated by Capita Registrars is available for shareholders to buy or sell SCi shares on the London Stock Exchange at www.capitadeal.com (Tel: +44 (0)870 458 4577).

Share price information

The market price of SCi shares is available at the Company's website at **www.sci.co.uk**. Within the UK the price is also available on Ceefax and Teletext. SCi's stock exchange code is SEG.

Unsolicited mail

The Company is obliged by law to make its share register available upon request to the public and to other organisations which may use it as a mailing list resulting in shareholders receiving unsolicited mail. Shareholders wishing to limit the receipt of such mail should write to the Mailing Preference Service, Freepost 29, LON 20 771, London W1E 0ZT or telephone +44 (0)845 703 4599 for an application form.

ShareGIFT

Shareholders who hold only a small number of shares, where dealing costs make it uneconomic to sell them, may wish to consider donating them to charity through ShareGift, a registered charity administered by The Orr Mackintosh Foundation. Further information is available at www.sharegift.org or by telephone +44 (0)20 7828 1151.

Annual General Meeting

The Company's Annual General Meeting will be held at the offices of KBC Peel Hunt, 111 Old Broad Street, London EC2N 1PH on Wednesday 20 February 2008 at 12 noon. A circular to shareholders, which includes the notice convening the meeting, accompanies this document.

Corporate calendar 2008

20 February 2008	Annual General Meeting
February 2008	Announcement of half year results to 31 December 2007
May 2008	Interim management statement
September 2008	Announcement of full year results to 30 June 2008
November 2008	Interim management statement

Investor relations

General enquiries may be addressed to the Company Secretary, Anthony Price at anthonypr@eidos.co.uk or by post to Anthony Price, SCi Entertainment Group plc, Wimbledon Bridge House, 1 Hartfield Road, London SW18 3RU or by telephone on +44 (0)20 8636 3000.

Five year record

	IFRS 12 months to 30 June 2007 £m	IFRS 12 months 30 June 2006 £m	IFRS 9 months to 30 June 2005 £m	UK GAAP 12 months to 30 September 2004 £m	UK GAAP 12 months to 30 September 2003 £m
Summary of results					
Revenue	**144.0**	179.1	18.0	31.0	28.5
Gross profit	**57.0**	103.8	5.0	20.2	17.2
Operating (loss) profit	**(31.4)**	7.8	(14.0)	4.5	3.6
EBITDA before exceptional items and share based compensation	**15.0**	28.8	(5.4)	6.0	4.3
(Loss) profit before tax	**(30.0)**	8.1	(13.4)	4.5	3.6
Net assets employed					
Non current assets	**194.4**	162.2	142.9	5.6	6.4
Net current assets	**27.6**	40.0	29.0	17.6	10.3
Total assets less current liabilities	**222.0**	202.2	171.9	23.2	16.7
Non current liabilities	**(19.4)**	(15.4)	(19.6)	–	(0.6)
Net assets	**202.6**	186.8	152.3	23.2	16.1

	Pence	Pence	Pence	Pence	Pence
(Loss) earnings per share	**(35.3)**	18.5	(37.5)	17.89	15.36

The amounts stated for 2004 and earlier periods are stated in the basis of UK GAAP as it is not practical to restate these periods for the transition to IFRS.

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