



For Immediate Release

7th August 2001

Trading update for the year ended 31st July 2001

Trading Statement

Argonaut Games PLC ("Argonaut" or the "Company"), a leading European developer of computer games software, provides an update on trading for the year ended 31 July 2001 and announces the appointment of Joss Ellis as Chief Operating Officer.

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First half releases

The PlayStation and PC titles, Alien Resurrection, Aladdin, and Emperor's New Groove released just prior to Christmas 2000 continue to sell in the retail market. However, as indicated at the half year, the disappointing launch of these titles, coupled with sales volumes to date of circa 250,000, 300,000 and 400,000 units respectively, lead us not to expect any royalty income from these games, at least in the near term.

Second half development

Following lengthy negotiations with a number of the largest publishers in the world, we are very pleased to announce that we have entered into a development agreement with Vivendi Universal Interactive Publishing North America Inc (Vivendi Universal) for Malice, our Xbox showcase title. The agreement, which marks the start of a new relationship with one of the key global players in the games market, covers both an Xbox and a PS2 version of the game. Exploiting Argonaut's multi-platform abilities in this way gives Malice a much larger target market and with the marketing and distribution capabilities of Vivendi Universal, we aim to grow the Malice franchise over the coming years. Development of Malice on Xbox, the lead version, continues apace and work on transferring the game to PS2 has already commenced. The game will be released under the Sierra brand in 2002, with the exact date being chosen by Vivendi Universal early in that year.

We are also very pleased to announce that during the half year we have signed a publishing deal with Microsoft to develop an exclusive game for Xbox. This transaction was particularly pleasing as it not only represents our second first party agreement with Microsoft, but also marks the first development agreement for Just Add Monsters Limited, the group's Cambridge studio acquired in October 2000. Development of the game is scheduled to be completed by June 2002.

As stated above, the process of signing next generation titles has taken longer than anticipated and this has been particularly the case with Orchid and Kleaners. Although we have entered into detailed discussions on both titles with several major international publishers, we felt that in the interests of achieving the best deal for the company it would be preferable not to accelerate these discussions simply to accommodate our year-end timetable. Discussions are continuing and we hope to announce the signing of agreements on both of these games in the near future.

Late in the year, our PS2 title code-named Cash on Delivery (COD), under development for Hasbro Interactive, was cancelled following the acquisition of Hasbro Interactive by Infogrames. The amicable termination of the development agreement in mid June left us free to re-market the game and although we have started this process with several interested parties and fully expect to sign an agreement in the near future, it was not possible to conclude a deal before our year-end.

Work on the PlayStation title Harry Potter and The Philosopher's Stone continues to plan. Our publisher, Electronic Arts, showed the game for the first time at the Los Angeles trade show E3 in May and were extremely pleased with the reception it received. The development will achieve its Beta stage, as planned, in a few weeks and we look forward to its release in November of this year, in conjunction with the worldwide release of the film. The first party title we are currently developing for Microsoft is also proceeding to

schedule and we were delighted to learn that a recent submission to the publisher was heralded as setting a new standard of excellence in game development.

Outlook

With the previously announced disappointing retail sales of our Christmas 2000 titles, the extension of the release dates on some of our contracted games and the fact that we did not sign publishing deals for Orchid, Kleaners and Cash on Delivery before year-end, our results for the year to 31 July 2001 will be below market expectations. Our accounting policies require us to expense all development costs as they fall due but only recognise revenue when an agreement is signed, the movement of a signing from before to after year-end will defer the recognition of revenue and have a material impact on our results. Therefore it is likely that the development revenue from these unsigned games will be recognised in the current year ending 31 July 2002.

This year we have experienced a slower and more problematic transition to the next generation consoles than we had expected. However these consoles represent the dominant platforms for the games market for the next five years or more and therefore it is important to seek out the best development agreements with the leading publishers for our first set of next generation titles. We believe the games we are developing, the agreements we have secured and those we are currently discussing represent a significant step in positioning Argonaut to capitalize on the forecast growth of the games market over the coming years. The company's ability to exploit this growth will also be supported by its strong balance sheet.

The appointment of Joss Ellis to the Board

We are pleased to announce the appointment of Joss Ellis as Chief Operating Officer and a Director of the Company with immediate effect. Joss (39), an industry veteran of 19 years, joined Argonaut in February 2001 after having spent over four years as VP of International Development at Virgin Interactive Entertainment. For the nine years prior to joining Virgin, Joss was employed by Electronic Arts Inc, the largest video game publisher in the world, latterly as Director of European Development. In the early eighties, before his time at EA, Joss worked for Firebird Software and the pioneer game developer Creative Sparks studio from Thorn EMI where he had three of his games published.

Commenting on the appointment, Julian Paul, Chairman of Argonaut, said, "we are delighted to have Joss join the board. His in-depth experience of both the publishing and development sides of the business makes him ideal for the role of Chief Operating Officer. As a key member of the strengthened management team, I am confident Joss will help take the company to the next level".

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