



## Financial Statement at 31 december 2001

**DIGITAL BROS S.p.A.**  
**CONSOLIDATED FINANCIAL STATEMENTS**

Amounts in thousands of Euro

ASSETS:	31/12/01	31/12/00
B) Fixed assets		
I - Intangible assets (net)		
1) start-up and expansion costs	3,204	4,210
3) industrial property rights	0	4
4) concessions, licences, trademarks and similar rights	10,634	3,899
5) goodwill	31	36
5-bis) consolidation difference	1,198	293
6) assets in progress and payments on account	31	2,052
7) other	135	196
8) accumulated amortisation	(5,980)	(2,520)
Total	<u>9,253</u>	<u>8,169</u>
II - Tangible fixed assets		
1) land and buildings	553	553
2) plant and machinery	100	98
3) industrial and commercial equipment	1,429	1,331
4) other tangible fixed assets	21	21
6) accumulated depreciation	(778)	(573)
Total	<u>1,325</u>	<u>1,430</u>
III - Financial fixed assets:		
e) other receivables		
b) due after more than one year	4	2
Total	<u>4</u>	<u>2</u>
Total fixed assets (B)	<u>10,582</u>	<u>9,601</u>
C) Current assets:		
I - Inventory		
4) finished goods	13,788	10,555
Total	<u>13,788</u>	<u>10,555</u>
II - Receivables (net):		
1) trade accounts		
a) due after less than one year	20,853	32,951
6) other		
a) due after less than one year	1,003	5,822
b) due after more than one year	302	65
Total	<u>22,158</u>	<u>38,838</u>
III - Financial assets (current)		
5) other securities	3,887	4,580
Total	<u>3,887</u>	<u>4,580</u>
IV - Cash at bank and on hand		
1) bank and post office accounts	2,551	21,172
3) cash and cash equivalents on hand	8	23
Total	<u>2,559</u>	<u>21,194</u>

Total current assets (C)	42,392	75,167
D) Prepayments and accrued income		
a) Accrued income	14	920
b) Prepayments	333	0
Total assets (A+B+C+D)	<u>53,321</u>	<u>85,688</u>

LIABILITIES AND SHAREHOLDERS' EQUITY:

A) Shareholders' equity:		
I - Share capital	1,625	1,614
II - Share premium reserve	39,666	39,677
IV - Legal reserve	258	258
VIII – Retained earnings (Accumulated losses)	(1,034)	1,256
Translation reserve	(151)	(52)
	<u>40,364</u>	<u>42,753</u>
IX - Profit ( Loss) for the year	(17,767)	(2,877)
Total shareholders' equity – Group share	<u>22,597</u>	<u>39,876</u>

Shareholders' equity – minority interests		
Capital and reserves – minority interests	0	356
Profit (Loss) for the year – minority interests	0	(216)
Total shareholders' equity	<u>22,597</u>	<u>40,016</u>

B) Provisions for risks and charges:		
3) other	0	463
Total	<u>0</u>	<u>463</u>

C) Employee termination indemnity provision	334	238
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D) Payables:

3) due to banks		
a) due after less than one year	17,282	24,468
b) due after more than one year	92	107
4) due to other lenders		
a) due after less than one year	12	98
5) payments on account		
a) due after less than one year	18	620
b) due after more than one year		
6) trade accounts		
a) due after less than one year	9,968	16,265
12) due to tax authorities		
a) due after less than one year	1,961	2,802
13) due to social security institutions		
a) due after less than one year	205	345
14) other payables		
a) due after less than one year	595	245
Total payables	<u>30,133</u>	<u>44,950</u>

E) Accrued expenses and deferred income		
a) Accrued expenses and deferred income	257	22
Total liabilities and shareholders' equity (A+B+C+D+E)	<u>53,321</u>	<u>85,688</u>

MEMORANDUM ACCOUNTS

a) Guarantees given	821	3,404
e) Commitments	699	1,077
Total	<u>1,520</u>	<u>4,481</u>

**DIGITAL BROS S.p.A.**  
**CONSOLIDATED FINANCIAL STATEMENTS**

Amounts in thousands of Euro

	<b>31/12/01</b>	<b>31/12/00</b>
A) Value of production		
1) revenues from sales and services	42,037	54,852
2) change in work-in –progress, semi-finished and finished goods	3,306	(136)
5) other revenues and income		
a) Other revenues and income	927	3,379
Total	<u>46,270</u>	<u>58,096</u>
B) Production costs		
6) raw, ancillary, consumable materials and goods for resale	24,157	33,874
7) services	15,909	14,797
8) use of third party assets / leases and rentals	1,052	853
9) personnel costs:		
a) wages and salaries	4,027	2,323
b) social contributions	1,009	708
c) employee termination indemnity provision	186	136
e) other costs	0	18
10) amortisation, depreciation and writedowns		
a) amortisation of intangible assets	4,329	3,788
b) depreciation of tangible fixed assets	365	219
c) other fixed asset writedowns	236	
d) writedowns of current receivables and of cash and bank balances	29	44
12) provision for risks	0	625
13) other provisions	0	4
14) sundry operating charges	563	739
Total production costs (B)	<u>51,864</u>	<u>58,127</u>
Difference between value of production and production costs (A-B)	<u>(5,594)</u>	<u>(32)</u>
C) Financial income and (charges)		
16) other financial income		
c) from securities classified other current assets other than equity investments	12	8
d) income other than the above		
e) other income	797	197
17) interest and other financial charges		
e) other interest and financial charges	(2,313)	(2,173)
Total (15-16-17)	<u>(1,504)</u>	<u>(1,968)</u>
E) Extraordinary income and charges		
20) income		
b) other income	354	253
21) charges		
b) prior year taxation	0	(1)
c) other charges	(10,980)	(1,175)
Total extraordinary income / (charges) (20-21)	<u>(10,626)</u>	<u>(923)</u>

Loss before taxation (A-B+C+-D+-E)	(17,724)	(2,922)
22) taxation on income for the year		
Current	(43)	(255)
Deferred	0	84
23) Loss for the year	<u>(17,767)</u>	<u>(171)</u>
(Profit) loss pertaining to minority interests	0	216
26) Profit (Loss) for the year	<u><b>(17,767)</b></u>	<u><b>(2,877)</b></u>

**DIGITAL BROS S.p.A.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS AT 31/12/01**  
(Amounts in thousands of Euro)

<b>A. Opening net cash position</b>	<b>1,101</b>
<b>B. Cash flow from operating activities</b>	
Net profit (loss) for the period	(17,767)
Amortisation of intangible assets	4,565
Depreciation of tangible fixed assets	366
Net change in other provisions	(463)
Net change in employee termination indemnity provision	96
<b>SUB TOTAL B.</b>	<b>(13,203)</b>
<b>C. Change in net working capital</b>	
Inventory	(3,233)
Trade receivables	12,099
Other current receivables	4,819
Prepayments and accrued income	573
Trade payables	(6,297)
Other payables	(1,233)
Deferred income	236
<b>SUB TOTAL C.</b>	<b>6,963</b>
<b>D. Cash flow from investment activities</b>	
Investments in intangible assets	(5,648)
Investments in tangible fixed assets	(261)
Investments in financial fixed assets	(240)
<b>SUB TOTAL D.</b>	<b>(6,149)</b>
<b>E. Cash flow from financial activities</b>	
Share capital increases	0
<b>SUB TOTAL E.</b>	<b>0</b>
<b>F. Movements on consolidated shareholders' equity</b>	
Increases (Decreases) in shareholders' equity pertaining to minority interests	(140)
Increases (Decreases) in translation reserve	(99)
Increases (Decreases) in other shareholders' equity items	587
<b>SUB TOTAL F.</b>	<b>349</b>
<b>G. Cash flow for the year (B+C+D+E+F)</b>	<b>(12,040)</b>
<b>H. Closing net cash position (A+G)</b>	<b>(10,940)</b>

# **DIGITAL BROS S.P.A.**

## **EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2001**

### ***Foreword***

The Digital Bros S.p.A. consolidated financial statements at December 31, 2001 have been prepared in accordance with the requirements of Legislative Decree no 127 of April 9, 1991.

The consolidated financial statements comprise the Balance Sheet, the Income Statement and these Explanatory Notes. They are accompanied by the Directors' Report on Group operations.

The explanatory notes include a reconciliation between the shareholders' equity and net loss for the year of the parent company Digital Bros S.p.A. and those contained in the consolidated financial statements.

### ***Business activities***

The Company distributes and sells video games.

The Company was listed on the New Market regulated by the Italian Stock Exchange on October 20, 2000.

Reference should be made to the Directors' Report on Operations for information about the operating and financial performance during the year.

### **Preparation method**

The financial statements are in accordance with Articles 2423 et seq. of the Civil Code. The Explanatory Notes have been prepared pursuant to Article 2427 of the Civil Code and form an integral part of the financial statements in terms of Article 2423. The Balance Sheet structure is as required by Article 2424 of the Civil Code while the Income Statement follows the requirements of Article 2425.

The financial statements used for consolidation purposes were those of the individual companies approved by the respective general meetings, as modified in order to make them consistent with Group accounting policies which are in line with the accounting standards issued by the Italian Accounting Profession and those issued by the IASC.

### ***Consolidation area***

At December 31, 2001, the consolidation area included the following companies:

Name	Head office	Currency	Share capital	% interest held	Consolidation method
Digital Bros S.p.A.	Milan	Euro	1,613,927.81	Parent company	Line by line
Evolution Entertainment S.r.l.	Milan	Euro	92.96	100	Line by line
Communications & Promotions S.r.l.	Milan	Euro	92.96	100	Line by line
Game Channel S.p.A. (2)	Milan	Euro	258,228.45	100	Line by line
Twine Holdings Ltd (3)	London	GBP	999	66.75	Line by line
Eon Digital Entertainment Ltd (1) (3)	London	GBP	999	66.75	Line by line
Game Network On line S.r.l.	Milan	Euro	500,000	100	Line by line
Game Network S.p.A. (2)	Milan	Euro	1,149,900	100	Line by line
Game Network Ltd.	London	GBP	1	100	Line by line
AD1 S.r.l. (2)	Milan	Euro	10,000	100	Line by line

(1) At December 31, 2001, this investment was 100% held by Twine Holdings Ltd

(2) Investments held 100% following approval on February 26, 2002 of merger of Game Channel S.p.A.; Evolution Entertainment S.r.l. and Communications & Promotions S.r.l. with Digital Bros SpA

(3) Financial statements only approved by "Board of Directors"

No subsidiary companies are excluded from the consolidation area.

### ***Accounting policies and consolidation method***

The structure of the Balance Sheet and Income Statement is as required by Legislative Decree 127/91. The Consolidated Financial Statements have been prepared in accordance with Article 29 of the aforementioned Decree.

The main consolidation methods and accounting policies adopted are as follows:

Financial statements prepared in foreign currencies are translated into Euro using the temporal method (historic exchange rates for shareholders' equity items, current exchange rate for other balance sheet items and average exchange rates for the year for income statement items); translation differences arising from the use of this method are recorded in a shareholders' equity reserve.

In preparing the consolidated financial statements at December 31, 2001 the following were eliminated:

- the book value of investments in companies included in the consolidation area and the corresponding portion of their shareholders' equity
- costs and revenues resulting from dealings between companies included in the consolidation area
- receivables and payables resulting from dealings between companies included in the consolidation area
- income and charges resulting from transactions between companies included in the consolidation area.

The assets and liabilities of the consolidated companies have been included on a line by line basis. The full amount of the assets and liabilities of each consolidated company has been

included irrespective of the percentage interest held.

The positive consolidation difference resulting from the elimination of the cost of equity investments held by the parent company and the corresponding value of shareholders' equity has been allocated to intangible assets as they represent the actual added value of the investments that can be recovered through future profits. Taking account of the Group's expectations for future profits, this difference has been amortised on a straight-line basis over ten years.

Minority interests in shareholders' equity and the result for the year are disclosed separately in the Balance Sheet and Income Statement.

### ***Valuation criteria***

The items reported in the financial statements have been valued based on the general prudence and accruals concepts and on a going concern basis.

The application of the prudence concept has meant that the items making up the single asset and liability balances have been valued individually in order to avoid netting off losses that should have been recognised and gains that should not as they had not been realised.

In accordance with the accruals concept, the effect of transactions and other events has been accounted for and allocated to the period the said transactions and events relate to and not the period in which the related cash movements take place.

The accounting standards followed are those issued by the Italian Accounting Profession (*il Consiglio Nazionale dei Dottori Commercialisti*) and approved by CONSOB (the Italian Stock Exchange Commission) as a point of reference when interpreting the Italian Civil Code. Where these accounting standards do not cover an issue, reference should be made to those issued by the IASC (International Accounting Standard Committee) which also comply with Italian Law.

### ***Intangible assets***

Intangible assets, apart from video game licences, are recorded at historic purchase cost, including incidental charges, and amortised on a straight-line basis.

Video game licences are recorded at historic purchase cost, including incidental charges. They are amortised based on the extent to which they are used as described below.

Start-up and expansion costs which will be of use over a number of years have been capitalised with the approval of the Board of Statutory Auditors. They mainly consist of costs incurred in relation to the quotation on the New Market organised and regulated by the Italian Stock Exchange S.p.A. They are amortised on a straight-line basis over a period of five years.

Leasehold improvements are amortised on a straight line basis over the remaining period of the relative lease agreement.

Goodwill arising upon the acquisition by the subsidiary Game Channel of the Multimedia Studio business is amortised on a straight-line basis over ten years.

*Tangible fixed assets* Tangible fixed assets are recorded at purchase and/or construction cost and adjusted by means of accumulated depreciation.

Tangible fixed assets have never been revalued.

The depreciation charged to the income statement has been determined using the maximum depreciation rates allowed by the Italian Finance Ministry as these are felt to reflect the remaining useful lives of the assets.

The depreciation period commences the year in which an asset comes into use.

In order to arrive at a fair estimate of the remaining useful lives of fixed assets, half of the normal rate is charged in the first year an asset comes into use.

#### *Financial assets (current)*

Securities consisting of temporary investments in open mutual investment funds have been valued at the lower of cost and market value.

#### *Receivables and payables*

Receivables are reported at estimated realisable value. The par value of receivables is brought into line with estimated realisable value by means of a provision for bad debts. This provision is calculated taking account of general economic conditions, conditions in the sector and the specific situation regarding individual debtors.

Payables are shown at nominal value.

#### *Inventory*

Finished goods are recorded at the lower of purchase cost and market value. Cost is determined using the specific cost method.

Licences to produce video games have been reclassified to intangible assets as that heading is considered more appropriate given the long-term nature of the contracts that have been entered into.

#### *Employee termination indemnity provision*

This represents the actual liability owing to employees under applicable legislation and

collective labour agreements, taking account of all forms of ongoing remuneration.

#### *Prepayments and accrued income, accrued expenses and deferred income*

These amounts are calculated in order to allocate the costs and revenues relating to two or more accounting periods to the correct period in accordance with the accruals concept. Accrued income and expenses relate to income and expenses relating to the year which will be received or paid the following year. Meanwhile, prepayments and deferred income relate to costs paid and income received during the year but which relate to future periods.

#### *Revenues and costs*

Costs, charges, revenues and income are accounted for based on the accruals concept. Revenues from the sale of goods are recognised when ownership changes hands; this normally takes place upon delivery or despatch of the goods. Revenues and income, costs and charges are recorded net of returns, bonuses, discounts and allowances. They are also shown net of taxes relating to the sale of goods and the supply of services.

#### *Deferred taxation*

Deferred tax assets and liabilities are calculated based on the tax rate applying in the year in which the tax effect is expected to materialise. Deferred tax assets are shown under "Other receivables". They are only recognised where it is reasonably likely that they will be recovered.

#### *Taxes on income*

Taxes on income are calculated based on existing tax law. The estimated liability is recorded under "Amounts due to tax authorities".

#### *Translation method for amounts expressed in foreign currency*

Receivables and payables denominated in non-Euro zone currencies are accounted for using the historic exchange rates in force at the transaction date. They are adjusted at year end to bring them into line with year end rates. Exchange differences are accounted for by means of a specific provision for unrealised exchange losses where a net loss emerges.

#### *Extraordinary income and charges*

Extraordinary income and charges do not form part of ordinary operating activities.

#### *Risks, commitments and guarantees*

Commitments and guarantees are disclosed in the memorandum accounts. The amounts reported reflect the Company's commitment at the balance sheet date.

***Reconciliation between net loss and shareholders' equity of parent company and consolidated net loss and shareholders' equity***

Amounts in thousands of Euro	Shareholders' equity	Loss for year
Shareholders' equity and loss for year as reported in parent company financial statements	26,884	(13,631)
Elimination of book value of equity investments:		
- negative difference between book value and pro quota net equity of subsidiaries	(1,331)	
- consolidation difference	1,198	(133)
- results, pro quota, reported by subsidiaries	(3,299)	(3,299)
Elimination of effects of transactions between consolidated companies		
- gain on business transfer	(904)	(904)
Other adjustments	49	200
<b>Shareholders' equity and loss for year – Group share</b>	<b>22,597</b>	<b>(17,767)</b>
<b>Shareholders' equity and loss for year – minority interests</b>	<b>0</b>	<b>0</b>
<b>Shareholders' equity and loss for year as reported in consolidated financial statements</b>	<b>22,597</b>	<b>(17,767)</b>

## Information about the balance sheet

### Intangible assets

Intangible assets were analysed as follows at year end:

<b>Euro thousands</b>	<b>31.12.2000</b>	<b>31.12.2001</b>
Start-up and expansion costs	4,210	3,204
Concessions, licences, trademarks and similar rights	3,899	10,634
Intellectual property rights	3	0
Goodwill	36	31
Consolidation difference	293	1,198
Assets in progress and payments on account	2,052	31
Other	196	135
Accumulated amortisation – licences	(2,520)	(5,980)
<b>Total (net)</b>	<b>8.169</b>	<b>9.253</b>

We provide below details of the main movements on the single items starting from the consolidated balance sheet at December 31, 2000:

<b>Euro thousands</b>	<b>Start-up and expansion costs</b>	<b>Intellectual property rights</b>	<b>Concessions</b>	<b>Goodwill</b>	<b>Consolidation difference</b>	<b>Assets in progress</b>	<b>Other</b>	<b>Total</b>
<b>Balance at 31.12.00</b>	<b>4,210</b>	<b>3</b>	<b>1,379</b>	<b>36</b>	<b>293</b>	<b>2052</b>	<b>196</b>	<b>8,169</b>
Increases during year	18	0	6,673	0	1,038	31	59	7,819
Decreases during year	0	-3	-286	0	0	0	0	-289
Reclassification	0	0	0	0	0	-2052	0	-2,052
Amortisation for year	-1024	0	-3,112	-5	-133	0	-120	-4,394
<b>Balance at 31.12.2001</b>	<b>3,204</b>	<b>0</b>	<b>4,654</b>	<b>31</b>	<b>1,198</b>	<b>31</b>	<b>135</b>	<b>9,253</b>

Euro 31,000 was invested during the year on licences still under development. These have not yet yielded any income. They are currently classified under “Assets in progress” and are not yet being amortised.

Investments in licences already in use are classified under “Concessions, licences, trademarks and similar rights”. The balance at December 31, 2001 was Euro 4,654,000. It was amortised based on actual use during the year. Actual use is determined based on the ratio of number of units produced to number of units expected to be sold during the period covered by the licence agreement.

<b>Euro thousands</b>	<b>31/12/01</b>
International licences	3,170
Italian licences	1,484
<b>Total</b>	<b>4,654</b>

### *Tangible fixed assets*

Tangible fixed assets were analysed as follows at December 31, 2001:

<b>Euro thousands</b>	<b>31/12/00</b>	<b>31/12/01</b>
Land and buildings	553	553
Plant and machinery	98	100
Industrial and commercial equipment	1,331	1,429
Other tangible fixed assets	21	21
<b>Total tangible fixed assets</b>	<b>2,003</b>	<b>2,103</b>

At year end, accumulated depreciation was as follows:

<b>Euro thousands</b>	<b>31/12/00</b>	<b>31/12/01</b>
Land and buildings	53	68
Plant and machinery	45	80
Industrial and commercial equipment	465	614
Other tangible fixed assets	10	16
<b>Total accumulated depreciation</b>	<b>573</b>	<b>778</b>

Movements on tangible fixed assets during the year may be analysed as follows:

<b>Euro thousands</b>	<b>Land and Buildings</b>	<b>Plant and Machinery</b>	<b>Equipment</b>	<b>Other tangible assets</b>	<b>Total</b>
<b>Balance at 31.12.2000</b>	<b>500</b>	<b>53</b>	<b>866</b>	<b>11</b>	<b>1,430</b>
Increases during year	0	0	277	0	277
Decreases during year	0	-17	0	0	-17
Depreciation charge for year	-15	-16	-328	-6	-365
<b>Balance at 31.12.2001</b>	<b>485</b>	<b>20</b>	<b>815</b>	<b>5</b>	<b>1,325</b>

The main additions during the year regarded investments in industrial and commercial equipment. Specifically, these included the purchase of television signal broadcasting equipment, servers for on-line gaming activities and new office automation equipment.

### *Employee termination indemnity provision*

Movements on the employee termination indemnity provision may be analysed as follows:

<b>Euro thousands</b>	<b>31/12/01</b>
Provision at December 31, 2000	238
Utilised	-90
Provided	186
<b>Employee termination indemnity provision</b>	<b>334</b>

Changes in the provision related to amounts paid out to staff leaving the Company and to the provision for the year.

*Long-term receivables*

Long-term receivables may be analysed as follows:

<b>Euro thousands</b>	<b>31.12.01</b>
Due from tax authorities	87
IRPEG paid in advance	100
Due from publishers	115
<b>Amounts due after more than a year</b>	<b>302</b>

Long-term payables may be analysed as follows:

<b>Euro thousands</b>	<b>31.12.01</b>
Long-term loans	92
<b>Amounts due after more than a year</b>	<b>92</b>

This liability relates to a mortgage loan arranged to fund the purchase of a real estate property by Digital Bros. S.p.A. It is due after less than five years.

The above balance represents the amount due after more than a year.

*Prepayments and accrued income*

At December 31, 2001, prepayments were as follows:

<b>Euro thousands</b>	<b>31.12.2000</b>	<b>31.12.2001</b>
Telephone charges	28	4
Satellite link costs	0	84
Leasing costs	89	68
Insurance	38	15
Advertising contract costs	598	0
Contract costs	38	49
Maintenance costs	5	3
Licence costs	110	102
Other prepayments	14	8
<b>Total prepayments</b>	<b>920</b>	<b>333</b>
Other accrued income	0	14
<b>Total prepayments and accrued income</b>	<b>920</b>	<b>347</b>

*Accrued expenses and deferred income*

This balance may be analysed as follows:

<b>Euro thousands</b>	<b>31.12.2000</b>	<b>31.12.2001</b>
Accrued commission	0	257
Other accrued expenses	22	0
<b>Total Accrued expenses</b>	<b>22</b>	<b>257</b>

There is no deferred income.

*Memorandum accounts*

Memorandum accounts are analysed as follows:

<b>Euro thousands</b>	<b>31.12.2000</b>	<b>31.12.2001</b>
Sureties issued to third parties	2,629	46
Mortgages issued to third parties	775	775
Finance lease commitments	1,077	699
<b>Total</b>	<b>4,481</b>	<b>1,520</b>

Mortgages issued to third parties relates entirely to the loan contract entered into by the parent company with Monte del Paschi di Siena in relation to the property in Via Labus 15/3, Milan.

“Finance lease commitments” includes outstanding finance lease instalments.

They may be analysed in more detail as follows:

<b>Euro thousands</b>	<b>31.12.2001</b>
Internet servers	266
Equipment	276
Other	157
<b>Total</b>	<b>699</b>

### *Financial income and charges*

#### **Financial income**

Financial income may be analysed as follows:

<b>Euro thousands</b>	<b>31.12.2001</b>
Interest on securities	12
Bank interest income	417
Exchange rates income	380
<b>Total financial income</b>	<b>809</b>

Financial charges may be analysed as follows:

<b>Euro thousands</b>	<b>31.12.2001</b>
Bank interest and charges	1,703
Factoring interest and charges	232
Interest on trade payables	13
Costs re advances on receivables	161
Exchange rates losses	204
<b>Total</b>	<b>2,313</b>

### *Extraordinary income and charges*

Extraordinary income may be analysed as follows:

<b>Euro thousands</b>	<b>31.12.2001</b>
Non-existent liabilities	194
Other unaccrued prior year income	49
Over accrual for expenses	111
<b>Total extraordinary income</b>	<b>354</b>

“Non-existent liabilities” arose as a result of settlements reached with suppliers.

Extraordinary charges may be analysed as follows:

<b>Euro thousands</b>	<b>31.12.2001</b>
Adjustment of prior year revenues	5,973
EON bad debts	4,910
Other bad debts	97
<b>Total extraordinary charges</b>	<b>10,980</b>

Extraordinary charges essentially relate to two situations: the return by clients of products sold to them during the previous year – Euro 5,973 thousands; and bad debts of the UK subsidiary EON Digital Entertainment – Euro 4,910 thousands.

The UK subsidiary’s bad debts were caused by major problems regarding the overseas sales network of US and German distributors. During 2001, the publishing

activities formerly carried out in the United Kingdom were transferred to Italy. This decision means that these bad debts will not be repeated in the future and may be considered as a one-off problem.

### *Shareholders' equity*

Movements on shareholders' equity during the year may be analysed as follows:

<b>Euro thousands</b>	<b>31/12/2000</b>	<b>Allocation of 2000 profits</b>	<b>Adjustments</b>	<b>Loss for 2001</b>	<b>31/12/2001</b>
Share capital	1,614		11		1,625
Share premium reserve	39,677		(11)		39,666
Legal reserve	259				259
Retained earnings (accumulated losses)	1,256	(2,290)			(1,034)
Translation reserve	(52)		(99)		(151)
Loss for year	(2,877)	2,290	587	(17,767)	(17,767)
Other reserves					
<b>Total shareholders' equity – Group</b>	<b>39,876</b>	<b>0</b>	<b>488</b>	<b>(17,767)</b>	<b>22,597</b>
Capital and reserves – min. interests	356		(356)		
Loss for year – min. interests	(216)		216		
<b>Total consolidated shareholders' equity</b>	<b>40,016</b>		<b>348</b>	<b>(17,767)</b>	<b>22,597</b>

At December 31, 2001, wholly subscribed and paid up share capital amounted to Euro 1,625,000 and consisted of 12,500,000 shares with a nominal value of Euro 0.13 each.

In 2001, the only operation regarding shares and share capital took place on November 26, 2001 when an extraordinary general meeting approved a resolution to translate the share capital into Euro pursuant to Article 17 of Legislative Decree no 213 of June 24, 1998 as amended by Legislative Decree no 206 of June 15, 1999 and Article 5 of EU Regulation no 1103/97. The value of each ordinary share was rounded to Euro 0.13 under Article 3 of Legislative Decree 213/1998 resulting in an increase of Lire 1.7151 per share. Pursuant to the extraordinary general meeting resolution, share capital was increased free of charge for translation and rounding purposes by Lire 21,438,750 from Lire 3,125,000,000 to Euro 1,625,000. This was effected by transferring an appropriate amount of the “Share premium reserve” reported in the financial statements at December 31, 2000 approved by a General Meeting of April 27, 2001 to share capital.

There are no dividend-bearing shares, convertible bonds or other forms of securities.

### *Employees*

The average number of employees during 2001 (i.e. the average of month end employee numbers) and the number of employees at year end was as follows:

<i>Category</i>	<i>Average</i>	<i>At December 31, 2001</i>
Managers	6	6
Office workers	103	90
Manual workers and apprentices	2	2
<b>TOTAL</b>	<b>111</b>	<b>98</b>

The difference between average employee numbers and the number of employees at year end relates to the closure of the UK subsidiaries Twine Holding Ltd and EON Digital Entertainment Ltd.

The following table contains a similar analysis for overseas employees only:

<i>Category</i>	<i>Average number</i>	<i>At December 31, 2001</i>
Managers	2	2
Office workers	10	0
Manual workers and apprentices	0	0
<b>TOTAL</b>	<b>12</b>	<b>2</b>

#### *Directors and statutory auditors' emoluments*

Pursuant to CONSOB regulation 11971/99, as subsequently amended, which implemented Legislative Decree no 58 of February 24, 1998, the following table contains details of the emoluments paid to members of the Board of Directors and the Board of Statutory Auditors. At the balance sheet date, there were no General Directors in terms of Article 2396 of the Civil Code.

<i>Name</i>	<i>Position</i>	<i>Period of office in 2001</i>	<i>Emoluments</i>	<i>Other emoluments (1)</i>	<i>Other emoluments (2)</i>
<b>Board of Directors</b>					
Abramo Galante	Chairman and Managing Director	From 01.01.2001 to 31.12.2001	258,228		
Raffaele Galante	Managing Director	From 01.01.2001 to 31.12.2001	258,228		
Lidia Florean	Director	From 01.01.2001 to 31.12.2001	134,279		
John Burns	Director	From 01.01.2001 to 31.12.2001			199,389
Davide Galante	Director	From 01.01.2001 to 31.12.2001			
Sem Bruno Moioli	Director	From 01.01.2001 to 31.12.2001			134,485
Bruno Soresina	Director	From 01.01.2001 to 31.12.2001	6,512		
Dario Treves	Director	From 01.01.2001 to 31.12.2001		155,450	207
Sergio Treves	Director	From 01.01.2001 to 31.12.2001	6,512		
<b>Board of Statutory Auditors</b>					
Prof. Marco Confalonieri	Chairman	From 01.01.2001 to 07.06.2001	7,156		
Franco Gaslini	Statutory auditor	From 01.01.2001 to 26.11.2001	11,766		
Franco Gaslini	Chairman	From 26.11.2001 to 31.12.2001	1,431		
Franco Tarantola	Statutory auditor	From 01.01.2001 to 31.12.2001	13,668		
Piergiorgio Picozzi	Substitute statutory auditor	From 01.01.2001 to 07.06.2001			
Piergiorgio Picozzi	Chairman	From 07.06.2001 to 26.11.01	8,586		
Piergiorgio Picozzi	Statutory auditor	From 26.11.2001 to 31.12.2001	1,070		
Pietro Ottone	Substitute statutory auditor	From 26.11.2001 to 31.12.2001			
Maurizio Picciotto	Substitute statutory auditor	From 01.01.2001 to 31.12.2001			

(1) Other emoluments from Digital Bros S.p.A.

(2) Other emoluments from subsidiary companies.

Pursuant to CONSOB resolution no 1971/99, details of stock options allocated to the Directors are provided below:

SHARE ALLOTMENT RIGHTS OR OPTIONS ISSUED DURING THE YEAR		SHARES ALLOTTED OR OPTIONS EXERCISED DURING THE YEAR	
<u>Shares allotted without payment</u>	<u>Purchase or subscription option rights</u>	<u>Shares allotted without payment</u>	<u>Purchase or subscription option rights</u>

<u>Surname and Name</u>	No of shares that may be allotted	Allotment date	No of shares that may be purchased or subscribed	Price at which option rights may be exercised	Period in which rights may be exercised	No of shares allotted	No of shares purchased or subscribed	Option exercise price
Floean Lidia	375		7,500	16€	(1)	0	0	0
Burns John	750		15,000	16€	(1)	0	0	0
Moioli Sem	750		15,000	16€	(1)	0	0	0
Soresina Bruno	175		3,500	16€	(1)	0	0	0
Treves Dario	375		7,500	16€	(1)	0	0	0
Treves Sergio	175		3,500	16€	(1)	0	0	0

(1) The Stock Option plan approved by the Extraordinary General Meeting held on April 19, 2000 will run for four years. The option rights granted by the plan may be exercised as from April 1 of each year as follows: 5% in 2001, 20% in 2002, 35% in 2003, 40% in 2004. Once they have matured options may be exercised at any time before August 31, 2004.

The Board of Directors of the parent company will remain in office until December 31, 2002. The Board of Statutory Auditors have been appointed until the same date.

We declare that the financial statements, comprising the Balance Sheet, Income Statement and Explanatory Notes, are consistent with the accounting records which are maintained in accordance with the law. They provide a true and fair view of the balance sheet and financial position and of the result for the year.

For and on behalf of the Board of Directors.

The Chairman

(Abramo Galante)

## Directors' Report on Operations of the Digital Bros Group

During the year, the Group continued the restructuring process regarding its equity investments and the extension of its activities. This meant that the process introduced last year was pursued once more. Two new Italian companies were set up, Game Network S.p.A. which is owned 100% by Game Channel S.p.A. and AD1 S.r.l. which is wholly owned by Game Network S.p.A.. A 100% interest was also acquired in Game Network Ltd.

Investments acquired and/or subscribed are set out in the following table:

Company acquired or founded	% of shares or quotas held at end of previous year	% of shares or quotas acquired	% of shares or quotas subscribed	% of shares or quotas held at end of current year
Evolution Entertainment S.r.l. (2)	100%	0%	0%	100%
Communications & Promotions S.r.l. (2)	100%	0%	0%	100%
Game Channel S.p.A. (2)	67%	0%	0%	67%
Twine Holdings Ltd.	66.75%	0%	0%	66.75%
EON Digital Entertainment Ltd. (1)	100%	0%	0%	100%
Game Network On Line S.r.l.	100%	0%	0%	100%
Game Network Ltd.	0%	100%	0%	100%
Game Network S.p.A. (3)	0%	0%	100%	100%
Ad1 S.r.l. (3)	0%	0%	100%	100%

(1) Investment owned indirectly through subsidiary Twine Holdings Ltd

(2) Company merged into Digital Bros S.p.A. with effect from January 1, 2002

(3) Acquired indirectly through subsidiary Game Channel S.p.A.

At December 31, 2001, the subsidiary companies were as follows:

Communications & Promotions S.r.l. - this company specialises in marketing, communications, buying advertising space, promoting and organising events as a services company. Digital Bros S.p.A. holds 100% of the quota capital. The company was merged into Digital Bros S.p.A. with effect from January 1, 2002.

Evolution Entertainment S.r.l. - this company publishes software and distributes it via newstands. Evolution Entertainment S.r.l.'s distribution activities are split between Business to business (sale of video games together with magazines and newspapers owned by third parties) and business to consumer (sale of video games together with own monthly magazines). Digital Bros S.p.A. owns 100% of the quota capital. The company was merged into Digital Bros S.p.A. with effect from January 1, 2002.

Game Network On Line S.r.l. - conducts on-line gaming activities. These consist of offering gamers access, upon payment of a subscription, to on-line games run on its server and only available on Internet. On July 31, 2001, Digital Bros S.p.A. transferred the on-line gaming business it had previously run directly to Game Network On Line S.r.l. Digital Bros owns 100% of the quota capital in the company. Digital Bros owns 100% of the quota capital.

Game Channel S.p.A. is a sub-holding company that owns the Game Network trademark and a 99% stake in Game Network S.p.A. Game Channel indirectly owns 100% of Adl S.r.l. through its subsidiary Game Network. On July 31, 2001, Game Channel S.p.A. transferred its digital TV business to Game Network S.r.l. At December 31, 2001, Digital Bros S.p.A. owned 67% of the company's share capital i.e. 335,000 shares. The company was merged into Digital Bros S.p.A. with effect from January 1, 2002.

Game Network S.p.A. broadcasts and produces digital television programmes. Game Channel S.p.A. holds 100% of its share capital.

Game Network Ltd broadcasts and produces digital television programmes for the UK market. Digital Bros holds 100% of its share capital.

AD1 S.r.l. operates as an advertising agency. Its activities include the sale of advertising space on the Game Network digital TV channel and on the web sites of third party clients. Its share capital is 100% owned by Game Network S.p.A.

Twine Holding Ltd is involved in international publishing. Digital Bros S.p.A. owns 66.75% of its share capital.

Eon Digital Entertainment Ltd carries out advertising activities. Its share capital is 100% owned by Twine Holdings Ltd.

## **The Group's business activities**

### *Distribution and co-publishing of video games in Italy*

Digital Bros S.p.A.'s main business is the localisation of video games for the Italian market and their subsequent distribution in Italy. Using the Halifax brand name, Digital Bros S.p.A. distributes the products of the international video games publishers which it has exclusive rights to represent in Italy.

Localisation or co-publishing involves making language and cultural changes to video games to adapt them to the Italian market as well as the translation into Italian of the original game manuals and the dubbing of any voices used in the game. The localisation process is carried out by Digital Bros and the video game publishers working closely together.

### *Video game publishing*

In 2001, the Group was involved in international video game publishing through its two UK subsidiaries Twine Holdings Ltd. ("Twine") and EON Digital Entertainment ("EON"). This activity involves acquiring video game development rights on a selective basis and then launching them on the market through the international distribution network. The length of the contracts agreed with the developers and the geographical areas covered vary from one contract to another.

The two UK companies have separate roles with Twine holding the game development rights and EON responsible for marketing and sales of the licences.

The poor performance of the international market together with the losses made by the UK subsidiaries led to a decision to cover the companies' losses and to transfer international publishing activities to Italy. These activities are now carried out by the department which handled licences held for Italy only and performed directly by Digital Bros S.p.A.

### *Digital theme TV*

Through its subsidiaries Game Channel S.p.A., Game Network S.p.A. and Game Network Ltd, the Digital Bros Group manages the Game Network satellite TV channel which broadcasts programmes dedicated to the video games world 24 hours a day. The programmes include talk-shows, previews, news, etc. The signal is broadcast to continental Europe by the Eutelsat satellite and by the Astra Satellite in the United Kingdom. The programmes can be seen unscrambled by anyone with suitable reception equipment and a satellite dish pointed towards the correct satellite.

AD1 S.r.l. was set up during the year. It acts as advertising concessionaire for Game Network S.p.A., Game Network on line S.r.l. and for several publications and well known Internet web sites.

In 2001, Game Network produced almost all of the programmes broadcast in two recording studios located in Via Labus, Milan and in Via del Guerino, Bergamo.

### *On-line Gaming*

On-line gaming activities were carried out directly by Digital Bros S.p.A. under the Gameonline name in the first few months of the year. When the Company acquired exclusive licences for the European market to two on-line games which were highly successful in Korea, it became necessary to develop a dedicated structure for this business. During the year, Digital Bros S.p.A. transferred its on-line gaming activities to the subsidiary Game Network on line S.r.l..

This business enables PC owner gamers to connect to the web site, choose the video game operated on the servers run by the company and play on-line against other gamers connected to the same site. This is a subscription service and during the year a structure was implemented to enable gamers to pay on line. Digital Bros developed in house the technology needed to offer the on-line gaming services on its servers.

Current technology - narrow-band and games consoles that do not permit Internet access – does not exploit the potential of on-line gaming and require video games to be purchased in a tangible format (CD ROM). The Internet access offered by the new generation of games consoles (Playstation2 and the forthcoming Nintendo Gamecube and Microsoft Xbox) together with the increased availability of broadband access will enable gamers to use on-line services to a greater extent in the near future and will see the sector expand rapidly in Italy and elsewhere.

### *Analysis of operating performance*

The Group's turnover amounted to Euro 42,037,000 in 2001, a drop of 30.5% compared to the Euro 54,852,000 recorded in 2000.

A consolidated net loss of Euro 17,767,000 was made compared to a consolidated net loss of Euro 2,877,000 in 2000.

The loss was caused by extraordinary items regarding the poor performance of the European video games market during the year. This factor had a major impact on the Group's income statement and the UK subsidiaries, Twine and EON, which only recently entered the market were affected to a great extent and recorded losses totalling Euro 8.8 million. A restructuring process has been implemented with the closure of the UK business and the transfer of activities to Italy. This will enable the Group to regain a balanced position.

Also, with regard to the Italian video games distribution business, in order to cope with the lasting cyclical crises affecting the market and support our longstanding clients, enabling newly released video games to have enough shelf space, in the second half of 2001 Digital Bros sought to meet some of its clients' requirements by introducing a one-off, extraordinary policy of accepting returns of several products already sold in 2000 in order to help clients cope with the period of strong growth seen in the last two months of 2001. Management believes that this decision has paid off given that sales in the first two months of 2002 are 113% up on those for the first two months of 2001. The actual increase is from Euro 1,766,000 last year to Euro 3,766,000 in 2002.

### *Analysis of revenues*

Like last year, the bulk of revenues came from the distribution of video games in Italy under the Halifax and Event brand names. Sales revenues may be analysed in more detail as follows:

<b>Euro thousands</b>	<b>31/12/00</b>	<b>31/12/01</b>	<b>Difference</b>	<b>%</b>
Distribution of video games for consoles	38,353	27,602	(10,751)	-28.0%
Distribution of video games for PC	6,376	6,101	(275)	-4.3%
Distribution of accessories	429	222	(207)	-48.2%
<b>Total distribution of video games – Italy</b>	<b>45,157</b>	<b>33,925</b>	<b>(11,232)</b>	<b>-24.9%</b>
International video game publishing	6,508	6,050	(458)	-7.0%
Digital TV	0	169	169	-
On line gaming revenues	0	329	329	-
Advertising revenues	1,781	1,492	(289)	-16.2%
Other products and services	1,405	72	(1,333)	-94.9%
<b>Total revenues</b>	<b>54,852</b>	<b>42,037</b>	<b>(12,815)</b>	<b>-23.4%</b>

Throughout almost all of 2001, the market was fairly hesitant with the first signs of recovery only visible in the last two months of the year. This was due to the fact that the transition from the generation of 64 bit consoles (Sony Playstation, Nintendo 64) to the new generation of 128 bit Internet ready consoles is still underway. This process will also see new hardware manufacturers enter the market for the first time. Microsoft has never operated on this market but is set to launch its Xbox console in Europe in April. It will be followed by Nintendo which has scheduled the European launch of its new Nintendo Gamecube console for May. All of this has led to uncertainty on the market and a prolonged transition phase.

In keeping with the transitional phase regarding that part of the market, the clearest slump regarded precisely the video games for consoles sector which decreased by Euro 10.8 million. This sector also represents the Digital Bros' main business.

The following table shows even more clearly that one of the major reasons for the slump is the fall in sales of video games for the Sony Playstation. These fell by Euro 20,285,000 compared to the prior year, a fall of 69%, and this was only partially compensated for by increased sales of video games for the new generation Sony Playstation 2. Sales of Playstation 2 games increased by 324% compared to 2000, a real increase of Euro 10,154,000.

Euro thousands	31/12/00		31/12/01		Change	
	Units	Turnover	Units	Turnover	Units	Turnover
Sega Dreamcast	67,625	1,912	9,145	188	-86%	-90%
Nintendo Gameboy	175,392	3,101	146,824	2,584	-16%	-17%
Nintendo Gameboy Advance	0	0	53,781	1,962	-	-
Nintendo 64	30,729	637	40,045	293	30%	-54%
Sony Playstation	1,341,308	29,565	502,926	9,280	-63%	-69%
Sony Playstation 2	86,275	3,139	346,609	13,293	302%	324%
<b>Total Distribution - Consoles</b>	<b>1,701,329</b>	<b>38,353</b>	<b>1,099,330</b>	<b>27,602</b>	<b>-35%</b>	<b>-28%</b>

The overall decrease in sales of video games for Sony consoles was Euro 10,131,000. This accounts for much of the fall in turnover for the Company. The fall in sales for consoles set to depart from the market very soon is also clear to see i.e. Sega Dreamcast down by Euro 1,724,000 and the Nintendo 64 down by Euro 344,000.

Meanwhile, the Euro 517,000 decrease in sales of video games for the Nintendo Gameboy should be considered bearing in mind the Euro 1,962,000 increase in sales of video games for the Gameboy Advance handheld console launched by Nintendo in 2001.

Sales remained fairly steady in the other market segments. Sales of video games for PCs increased by 5% (Euro 309,000) compared to last year. This increase was the result of a 35% increase in volumes and a fairly significant fall in average prices (-22%).

Amounts in Euro	31/12/00	31/12/01	Change
	Average price	Average price	
Sega Dreamcast	28.3	20.6	-27%
Nintendo Gameboy	17.7	17.6	0%
Nintendo Gameboy Advance	0.0	36.5	-
Nintendo 64	20.7	7.3	-65%
Sony Playstation	22.0	18.5	-16%
Sony Playstation 2	36.4	38.4	5%
<b>Total Distribution – Consoles</b>	<b>22.5</b>	<b>25.1</b>	<b>11%</b>
Personal Computer	18.5	14.4	-22%
<b>Total Distribution – Video games</b>	<b>21.9</b>	<b>22.2</b>	<b>1%</b>

Another distinctive feature of the sector is that it is subject to seasonal factors. This means that the Company makes around 65% of its total sales in the first and last quarter of the year. This must be borne in mind in order to understand the equity structure and leads to an increase in net working capital at year end (see later in this report).

During the year, the UK subsidiary published 8 video game licences internationally, generating revenues of Euro 6,050,000.

Digital TV revenues mainly comprise revenues from prize competitions organised by UK subsidiary Game Network Ltd.

On line gaming revenues consist of subscription payments received from gamers. During the year, Game Network on line S.r.l. launched the first exclusive on-line game in Europe with “Legend of Mir”. At December 31, 2001, there were around 9,000 paying players, 90% of whom were outside Italy. The launch phase of a new game “Mith of Soma” commenced during the year. This game will start to generate revenues as from March 2002.

Advertising revenues are generated by the sale of advertising spaces during television programmes as well as by the sale of advertising space on behalf of third party publishers who subsidiary Adl S.r.l. acts for. Total advertising revenues amounted to Euro 1,492,000. ADI S.r.l. became advertising agent of Game Network S.p.A. with effect from October 1, 2001.

Revenues may be analysed by geographical area as follows:

<i>Euro thousands</i>	
Revenues Italy	35,518
Revenues outside Italy	6,519
<b>Total Revenues</b>	<b>42,037</b>

#### *Analysis of costs*

#### **Purchases of raw, ancillary and consumable materials and goods for resale**

As the revenues trend shows, the Digital Bros Group's main activities during the year were the distribution of video games in Italy and international publishing. These are both primarily commercial activities and, as a result, "purchases of raw materials and goods for resale" are high. These purchases consist almost entirely of goods for resale.

The following table provides further analysis of this item in order to give a better understanding. It shows purchases as a percentage of publishing and distribution revenues. Comparative figures for 2000 are provided:

<b>Euro thousands</b>	<b>31/12/00</b>		<b>31/12/01</b>	
Distribution of video games in Italy	45,157		33,925	
International video game publishing	6,508		6,050	
<b>Total revenues from sale of video games (a)</b>	<b>51,665</b>	<b>100%</b>	<b>39,975</b>	<b>100%</b>
Purchases of goods for resale	(33,874)		(24,157)	
Change in inventory	136		3,306	
<b>Total cost of sales (b)</b>	<b>(33,739)</b>	<b>-65%</b>	<b>(20,851)</b>	<b>-52%</b>
<b>Added value</b>	<b>17,927</b>	<b>35%</b>	<b>19,124</b>	<b>48%</b>

The significant increase in added value as a percentage of total revenues is explained by the following:

- The large-scale retail and key account distribution channel which includes large general retail chains, IT chains, specialist electronics shops and other large companies in the sector increased as a percentage source of total revenues. This distribution channel has a different price structure where other cost are charged but pass through "Services" while lower discounts are offered on selling prices.;
- The extraordinary returns policy introduced meant that related losses were recorded under extraordinary items while positive movements regarding the return of goods passed through "change in inventory" and had a significant impact on Added Value.

#### **Cost of services**

At consolidated level, cost of services increased by Euro 1,112,000 from Euro 14,797,000 at December 31, 2000 to Euro 15,509,000 at December 31, 2001. The main changes are set out below:

<b>Euro thousands</b>	<b>31.12.2000</b>	<b>31.12.2001</b>	<b>Difference</b>	<b>%</b>
Advertising, marketing , trade fairs and exhibitions	4,955	5,833	878	18%
Commission and incidental charges	1,176	806	-370	-31%
Transport and freight costs	802	380	-422	-53%
Distribution costs	350	209	-141	-40%
Insurance	106	181	75	70%
Professional advisors, freelance staff, lawyers and notaries	774	1,346	572	74%
Postage and telephone	2,192	1,163	-1,029	-47%
Travel and subsistence costs	403	930	527	131%
Entertainment costs	120	44	-76	-64%
Sundry utilities	61	59	-2	-4%
Satellite link	721	1,356	635	88%
Temporary staff costs	152	175	23	15%
Maintenance costs	127	144	17	14%
Directors' fees	1,053	703	-350	-33%
Statutory auditors'	52	58	6	11%
Television programmes	0	218	218	-
Other general and administrative expenses	427	269	-158	-37%
Licences	1,326	2,036	710	54%
<b>Total</b>	<b>14,797</b>	<b>15,909</b>	<b>1,112</b>	<b>8%</b>

The Euro 1,029,000 fall in “postage and telephone charges” is almost entirely due to the fact that telephone charges towards Nopay S.r.l. were incurred last year but not to a significant extent this year. This year, this business was only undertaken for a short period of time.

The increase in satellite link costs relates to the business of the subsidiary Game Network. Last year, costs for the full year related only to the Eutelsat signal. In 2001, the total included the cost for twelve months of the Eutelsat signal and six months for the Astra signal.

The increase in “Licences” represents the royalties paid to Disney Interactive under a co-publishing and distribution agreement entered into with Digital Bros on October 1, 2000 and subsequently renewed for a further twelve months. Unlike other Italian and international licences which are capitalised as intangible assets, the licences under this contract are charged directly to the income statement as the contract regarding their use relates to a period of less than a year.

### **Personnel costs**

Personnel costs and average cost per employee have risen fairly significantly:

<b>Euro thousands</b>	<b>31.12.2000</b>	<b>31.12.2001</b>	<b>Difference</b>	<b>%</b>
Wages & Salaries	2,322	4,027	1,705	73%
Social Contribution	708	1,009	301	43%
Employee Termination Indemnity	136	186	50	37%
Other Cost	18	-	(18)	
<b>Total Personnel Cost</b>	<b>3,184</b>	<b>5,222</b>	<b>2,038</b>	<b>64%</b>
Average no. Of Employees	90	111	21	23%
<b>AVERAGE COST PER EMPLOYEE</b>	<b>35.4</b>	<b>44.6</b>	<b>9.2</b>	<b>26%</b>

The increase in the average cost per employee is due to several factors:

- standard pay increases
- the high cost of labour in the United Kingdom. UK subsidiaries had an average of just four employees last year compared to twelve this year.

### **Provision for risks and charges**

The provision made by the subsidiary EON Digital Entertainment last year in respect of contingent liabilities was utilised in full during the year.

### *Analysis of investments and net working capital*

The performance of the video games market during the year, major operations at corporate level and, finally, investments made in licences to publish video games had a significant effect on the consolidated balance sheet structure.

### **Investments**

Details of investments can be found in the explanatory notes to the consolidated financial statements.

### **Net working capital**

In order to show developments in net working capital and explain the factors that have led to the significant change in the level of net working capital, the following table sets out current assets and liabilities at December 31, 2001 together with comparative figures taken from the pro forma consolidated financial statements at December 31, 2000:

<b>Euro thousands</b>	<b>31/12/01</b>	<b>31/12/00</b>	<b>Difference</b>
Inventory	13,788	10,555	3,233
Trade receivables	20,853	32,951	(12,098)
Other current receivables	1,003	5,822	(4,819)
Prepayments and accrued income	347	920	(573)
Trade payables	(9,968)	(16,265)	6,297
Other payables	(2,779)	(4,012)	1,233
Accrued expenses and deferred income	(257)	(22)	(236)
<b>Total Net Working Capital</b>	<b>22,987</b>	<b>29,949</b>	<b>(6,962)</b>

Net working capital has fallen as current assets decreased by more than current liabilities. The fall in consolidated net working capital is mainly due to the following factors:

- the seasonal nature of the Italian distribution business had a particularly large impact last year
- the reduction of current assets related to publishing activities
- the decrease in trade payables in relation to the lower level of turnover.

Given the above, any calculations of ratios intended to show average debtor/creditor days would give rise to a distorted picture of the balance sheet position.

Net working capital is expected to increase in 2002 as a result of higher Group sales revenues.

### **Analysis of net financial position**

At December 31, 2001, the net financial position was negative and amounted to Euro 10,940,000. This compares with a positive net financial position of Euro 1,102,000 at the end of 2000.

<b>Euro thousands</b>	<b>31/12/01</b>	<b>31/12/00</b>	<b>Difference</b>
Other securities	3,887	4,580	(693)
Bank and post office accounts	2,551	21,172	(18,621)
Due to other lenders	(12)	(98)	86
Cash on hand	8	23	(15)
Due to banks	(17,374)	(24,575)	7,201
<b>Net financial position</b>	<b>(10,940)</b>	<b>1,102</b>	<b>(12,042)</b>

### **Significant subsequent events**

On February 26, 2002, the documents regarding the merger of Game Channel S.p.A., Evolution Entertainment S.r.l. and Communications & Promotions S.r.l. into Digital Bros S.p.A. were finalised. The remaining 33% of Game Channel S.p.A. was acquired by increasing the share capital of Digital Bros S.p.A. by Euro 52,000 involving the issue of 400,000 shares with a par value of Euro 0.13 in favour of minority shareholder Sem Moioli. Following the merger, the Game Network trademark, together with other brands and trademarks owned by the Group, became directly owned by Digital Bros.

In February 2002, the Company signed a non-exclusive distribution agreement with Nintendo for the distribution in Italy of software produced by the Japanese company for its Gameboy and Gameboy Advance handheld consoles and, from May 5, 2002, for its new Nintendo Gamecube console. We believe that additional sales revenues of at least Euro 10 million should be generated under this contract.

### **Business outlook**

Considering the sales recovery seen in the last two months of 2001, the positive market performance in January and February 2002 with turnover up by 113% compared to the first two months of 2001 and the likely positive impact of the contract entered into with Nintendo, the Directors believe that 2002 revenues should exceed Euro 85 million. This would be in line with the strategic plan approved by the Board of Directors on October 1, 2001 and would represent an increase of 100% compared to 2001.

In terms of profitability, given the cost saving policy already implemented together with measures intended to make fixed costs variable by using various forms of outsourcing and make the income statement structure more flexible, we believe that a profit is possible for the year in progress at EBIT level.

### **Information about compliance with the recommendations contained in the Self-regulatory Code for listed companies pursuant to Section IA.2.12 of the New Market Regulations**

As the parent company, prior to its admission to listing on the New Market, Digital Bros S.p.A. adopted the Self-regulatory Code for listed companies. This completed the regulatory and self-regulatory framework introduced by Legislative Decree no 58 of February 24, 1998 and adopted by CONSOB through regulation no 11971 of May 14, 1999 as subsequently amended.

We would like to highlight the following principles contained in the Code which have already been implemented: statutory provision aiming to ensure the presence on the Board of Statutory Auditors of at least one member elected by minority shareholders; the presence of non-executive directors, including independent directors, on the Board of Directors; the appointment of an Internal Control Committee and of a Remuneration Committee for managing directors and for directors with specific responsibilities; the creation of a specific function to maintain shareholder relations; the introduction of a system of variable remuneration (stock option plan) for directors and employees and the adoption of general meeting rules.

On the whole, the Company's Corporate Governance situation is in line with the recommendations and rules contained in the Self-regulatory Code and is based on organisational procedures, the most important of which include:

- The Board of Directors meets ten times a year. At these meetings it discusses the performance of the various sectors of the business, actual quarterly results, strategic plans and the main operations as presented by the executive directors
- The current Board of Directors has eight members, two of whom, the Chairman and the Managing Directors, have executive powers
- The Chairman and the Managing Directors constantly put operations with a major impact on the profitability, net equity and financial position before the Board of Directors for its approval. This is despite the fact that their executive powers are very far reaching

- The Board has set up two sub-committees. The Internal Control Committee consisting of two external non-executive directors ( Bruno Soresina and Sergio Treves) and the Remuneration Committee consisting of three non-executive directors (Davide Galante, Lidia Florean and Dario Treves)
- An Investor Relations structure operates under the responsibility of the Chairman. It is run by a manager and its role includes the maintenance of relations with institutional investors. It also ensures that requirements regarding the communication to the market of price sensitive information are met in accordance with existing regulations. It pays attention to problems regarding the symmetrical distribution of information.

### Dealings with related parties

Pursuant to CONSOB Communications DAC/RM/97001574 of February 20, 1997 and DAC/98015375 of February 27, 1998, we note, as required by Art. 2359 of the Italian Civil Code and International Accounting Standard (IAS) no 24 “Related Party Disclosures”, that relations with Digital Bros Group companies relate to direct and indirect subsidiaries with which trade and financial relations are maintained at normal market conditions. At December 31, 2001, these relations were summarised as follows:

<i>Euro thousands</i>		
	<b>Related Parties</b>	
Sales/(Purchases of goods)	910	0
Receivables/ (Payables)	2,475	0

The only relations between Group companies and related parties regard the contracts signed in July 2000 by Digital Bros S.p.A. and Communications & Promotions S.r.l., on the one hand, and Nopay S.r.l., on the other. Under the agreement, the companies bill NoPay S.r.l. for telephone charges incurred, the use of Broadband, the use of equipment and the cost of personnel involved in developing and maintaining the nopay.it web site. NoPay S.r.l. shall pay the company the amount of all costs incurred and documented plus a premium of 5%.

### Research and development activities

The Group did not conduct any research and development activities.

## Other premises used by the Group

The premises used by the Group during the year are as follows:

Company	Location	Activities
Digital Bros S.p.A.	Via Bisceglie 71/73 Edificio B - Milan	Offices, workshops, warehouse
Digital Bros S.p.A.	Via Silicella 84 – Rome	Offices, warehouse, sales outlet
Evolution Entertainment S.r.l.	Via Bisceglie 71/73 Edificio B - Milan	Offices
Communications & Promotions S.r.l.	Via Bisceglie 71/73 Edificio B - Milan	Offices
Game Channel S.p.A.	Via del Guerino 10 – Bergamo	TV production studio
Game Network S.p.A.	Via Labus 15/3 – Milan	Offices, production
AdI S.r.l.	Via Labus 15/3 – Milan	Offices
Game Network on line S.r.l.	Via Bisceglie 71/73 Edificio B - Milan	Offices
Twine Holding Limited	Ground Floor 53/54 Grosvenor Street Mayfair - London	Offices
Eon Digital Entertainment	Ground Floor 53/54 Grosvenor Street Mayfair - London	Offices
Game Network Ltd.	Stockley Park, 8 Uxbridge, Middlesex – United Kingdom	Offices

## Investments held by directors and statutory auditors

Pursuant to CONSOB resolution no 11971/99 as subsequently amended, we hereby provide a list of investments held by the directors. The members of the Board of Statutory Auditors do not hold any investments in the Group companies.

Surname, name	Company shares held in	Number of shares held at end of prior year	Number of shares acquired	Number of shares sold	Number of shares held at end of current year
Abramo Galante	Digital Bros S.p.A.	4,813,136	0	0	4,813,136
Raffaele Galante	Digital Bros S.p.A.	4,813,136	0	0	4,813,136
Davide Galante	Digital Bros S.p.A.	283,728	0	0	283,728
John Burns	Twine Ltd.	33.25%	0	0	33.25%
Sem Moioli	Game Channel S.p.A.	165,000	0	0	165,000

For and on behalf of the Board of Directors

The Chairman

(Abramo Galante)

**DIGITAL BROS S.p.A.**  
**FINANCIAL STATEMENTS AT DECEMBER 31, 2001**

Amounts in Euro

ASSETS:	31/12/01	31/12/00
B) Fixed assets:		
I - Intangible assets (net)		
1) start-up and expansion costs	3,185,234	4,195,836
4) concessions, licences, trademarks and similar rights	2,005,911	1,195,623
6) assets in progress and payments on account	19,444	0
7) other	88,182	169,325
8) accumulated amortisation	(442,946)	(130,283)
Total	<u>4,855,825</u>	<u>5,430,501</u>
II - Tangible fixed assets		
1) land and buildings	553,047	553,047
2) plant and machinery	86,774	81,738
3) industrial and commercial equipment	866,996	953,472
4) other	21,227	21,227
6) accumulated depreciation	(600,053)	(487,453)
Total	<u>927,991</u>	<u>1,122,031</u>
III - Financial fixed assets:		
1) equity investments in:		
a) subsidiary companies	2,109,433	1,330,287
2) receivables		
d) other		
b) due after more than one year	1,885	1,885
Total	<u>2,111,318</u>	<u>1,332,172</u>
Total fixed assets (B)	<u>7,895,134</u>	<u>7,884,705</u>
C) Current assets:		
I - Inventory		
4) finished goods	13,298,817	9,204,952
Total	<u>13,298,817</u>	<u>9,204,952</u>
II - Receivables (net):		
1) trade accounts		
a) due after less than one year	17,961,169	25,658,853
2) due from subsidiary companies		
a) due after less than one year	7,357,377	8,681,640
5) other receivables		
a) due after less than one year	177,663	4,645,566
b) due after more than one year	301,606	64,447
Total	<u>25,797,815</u>	<u>39,050,506</u>
III - Financial assets (current):		
5) other securities	3,836,300	4,529,151
Total	<u>3,836,300</u>	<u>4,529,151</u>
IV - Cash at bank and on hand		
1) bank and post office accounts		
3) cash and cash equivalents on hand	2,142,060	20,808,843
	1,841	7,160
Total	<u>2,143,901</u>	<u>20,816,002</u>
Total current assets (C)	<u>45,076,833</u>	<u>73,600,612</u>

D) Prepayments and accrued income		
a) Prepayments and accrued income	221,817	284,464
b) Deficit on loans		
<b>Total assets (A+B+C+D)</b>	<b>53,193,785</b>	<b>81,769,781</b>

LIABILITIES AND SHAREHOLDERS' EQUITY:

A) Shareholders' equity:		
I - Share capital	1,625,000	1,613,928
II - Share premium reserve	39,666,142	39,677,214
IV - Legal reserve	258,228	258,228
VIII - Retained earnings (accumulated losses)	(1,034,356)	1,256,223
	40,515,014	42,805,594
IX - Net loss for the year	(13,630,744)	(2,290,580)
<b>Total Shareholders' equity</b>	<b>26,884,270</b>	<b>40,515,014</b>

C) Employee termination indemnity provision	267,928	198,044
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D) Payables:

3) due to banks		
a) due after less than one year	17,046,421	24,079,810
b) due after more than one year	91,761	107,392
4) due to other lenders		
a) due after less than one year	0	86,161
6) trade accounts		
a) due after less than one year	6,047,585	12,469,903
8) due to subsidiary companies		
a) due after less than one year	300,109	1,276,874
11) due to tax authorities		
a) due after less than one year	1,718,193	2,659,328
12) due to social security institutions		
a) due after less than one year	146,801	181,933
13) other payables		
a) due after less than one year	433,313	190,577
Total	25,784,182	41,051,977

E) Accrued expenses and deferred income		
a) Accrued expenses and deferred income	257,404	4,746

<b>Total liabilities and shareholders' equity (A+B+C+D+E)</b>	<b>53,193,785</b>	<b>81,769,781</b>
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Memorandum accounts		
Sureties	46,481	2,577,120
Mortgages	774,685	774,685
Pledged securities	0	0
Leased assets	423,139	689,470
<b>Total memorandum accounts</b>	<b>1,244,305</b>	<b>4,041,275</b>

**DIGITAL BROS S.p.A.**  
**FINANCIAL STATEMENTS AT December 31, 2001**

Amounts in Euro

	<b>31/12/01</b>	<b>31/12/00</b>
A) Value of production		
1) revenues from sales and services	33,903,196	47,545,377
2) change in inventory of work-in-progress, semi-finished and finished goods	4,093,865	(1,083,199)
3) change in job order work in progress		
5) other revenues and income		
b) other revenues	1,345,379	2,830,134
Total	<u>39,342,440</u>	<u>49,292,312</u>
 B) Production costs		
6) raw materials and consumables and goods for resale	22,334,514	32,429,234
7) services	9,224,199	11,695,431
8) use of third party assets / leases and rentals	641,901	565,629
9) personnel costs:		
a) wages and salaries	1,972,651	1,517,593
b) social contributions	678,959	535,714
c) employee termination indemnity	140,114	105,253
e) other personnel costs	3,374	15,450
10) amortisation, depreciation		
a) amortisation of intangible assets	1,214,125	1,259,607
b) depreciation of tangible fixed assets	158,937	146,528
c) fixed asset writedowns	235,504	0
12) provisions for risks	0	117,177
14) sundry operating costs	497,448	728,515
Total	<u>37,101,726</u>	<u>49,116,129</u>
 Difference between value of production and production costs (A-B)	<u>2,240,714</u>	<u>176,182</u>
 C) Financial income and (charges)		
16) other financial income		
c) from securities classified as current assets other than equity investments	10,433	7,641
d) income other than the above		
d) other income	795,350	236,541
17) interest and other financial charges		
d) Other interest and financial charges	(2,203,469)	(2,100,500)
Total (16-17)	<u>(1,397,685)</u>	<u>(1,856,318)</u>
 E) Extraordinary income and charges		
20) income		
b) other income	343,323	242,854
21) charges		
c) other charges	(14,777,381)	(772,731)
Total extraordinary income and charges (net) (20-21)	<u>(14,434,058)</u>	<u>(529,877)</u>
 Loss before taxation (A-B+C+-D+-E)	(13,591,029)	(2,210,013)
22) taxation on income for the year		
current	(39,715)	(164,233)
deferred	0	83,666
26) net loss for the year	<u><u>(13,630,744)</u></u>	<u><u>(2,290,580)</u></u>

**DIGITAL BROS S.p.A.**  
**CASH FLOW STATEMENT**

	<b>31/12/01</b>	<b>31/12/00</b>
<b>A. Opening net cash position</b>	<b>1,072</b>	<b>(8,159)</b>
<b>B. Cash flow from operating activities</b>		
Net income (loss) for year	(13,631)	(2,291)
Amortisation of intangible assets	1,450	1,260
Depreciation of tangible fixed assets	159	147
Net decrease (increase) in other provisions	0	(140)
Net increase in employee termination indemnity provision	70	49
<b>SUBTOTAL B.</b>	<b>(11,952)</b>	<b>(976)</b>
<b>C. Change in net working capital</b>		
Inventory	(4,094)	1,918
Trade receivables	7,697	(12,770)
Intercompany receivables	1,324	(8,682)
Other current receivables	4,468	(4,185)
Prepayments and accrued income	62	4
Trade payables	(6,422)	937
Intercompany payables	(977)	1,277
Other payables	(734)	(131)
Accrued expenses and deferred income	253	(26)
<b>SUBTOTAL C.</b>	<b>1,578</b>	<b>(21,658)</b>
<b>D. Cash flow from investment activities</b>		
Investments in intangible assets	(875)	(6,469)
Investments in tangible fixed assets	35	(270)
Investments in financial fixed assets	(1,016)	(1,330)
<b>SUBTOTAL D.</b>	<b>(1,856)</b>	<b>(8,135)</b>
<b>E. Cash flow from finance activities</b>		
Share capital increases	0	40,000
<b>SUBTOTAL E.</b>	<b>0</b>	<b>40,000</b>
<b>F. Dividends</b>	<b>0</b>	<b>0</b>
<b>G. Cash flow for the period (B+C+D+E+F)</b>	<b>(12,230)</b>	<b>9,231</b>
<b>H. Closing net cash position (A+G)</b>	<b>(11,158)</b>	<b>1,072</b>

## **DIGITAL BROS S.p.A.**

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

#### **FOR THE YEAR ENDED 31/12/2001**

##### **Foreword**

The financial statements at December 31, 2001 have been prepared in accordance with the requirements of Article 2423 et seq. of the Civil Code.

##### **Business activities**

The Company distributes and sells video games.

The Company was listed on the New Market regulated by the Italian Stock Exchange on October 20, 2000.

Reference should be made to the Directors' Report on Operations for information about the operating and financial performance during the year.

##### **Preparation method**

The financial statements are in accordance with Articles 2423 et seq. of the Civil Code. The Explanatory Notes have been prepared pursuant to Article 2427 of the Civil Code and form an integral part of the financial statements in terms of Article 2423. The Balance Sheet structure is as required by Article 2424 of the Civil Code while the Income Statement follows the requirements of Article 2425.

##### **Valuation criteria**

The valuation criteria used in preparing the financial statements for the year ended December 31, 2001 are consistent with those used to prepare the previous year's financial statements. Valuation criteria have been applied on a consistent basis.

Each balance has been valued taking account of the prudence and accruals concepts on a going concern basis.



- plant and machinery: 15%
- equipment: 7.5% - 20%
- other fixed assets: 25%

### ***Financial assets (current)***

Securities consisting of temporary investments in open mutual investment funds have been valued at the lower of cost and market value.

### ***Receivables and payables***

Receivables are reported at estimated realisable value. The par value of receivables is brought into line with estimated realisable value by means of a provision for bad debts. This provision is calculated taking account of general economic conditions, conditions in the sector and the specific situation regarding individual debtors.

Payables are shown at nominal value .

### ***Inventory***

Finished goods are recorded at the lower of purchase cost and market value. Cost is determined using the actual cost method.

Licences to produce video games have been reclassified to intangible assets as that heading is considered more appropriate given the long-term nature of the contracts that have been entered into.

### ***Equity investments***

Equity investments in subsidiary companies that the company intends to hold for some time are recorded at purchase or subscription cost as adjusted, where necessary, to take account of permanent losses of value.

Equity investments recorded as financial fixed assets represent long-term, strategic investments.

### ***Employee termination indemnity provision***

This represents the actual liability owing to employees under applicable legislation and collective labour agreements, taking account of all forms of continuous remuneration.

### ***Prepayments and accrued income, accrued expenses and deferred income***

These amounts are calculated in order to allocate the costs and revenues relating to two or more accounting periods to the correct period in accordance with the accruals concept.

Accrued income and expenses relate to income and expenses relating to the year which will be received or paid the following year. Meanwhile, prepayments and deferred

income relate to costs paid and income received during the year but which relate to future periods.

### ***Revenues and costs***

Costs, charges, revenues and income are accounted for based on the accruals concept. Revenues from the sale of goods are recognised when ownership changes hands; this normally takes place upon delivery or despatch of the goods. Revenues and income, costs and charges are recorded net of returns, bonuses, discounts and allowances. They are also shown net of taxes relating to the sale of goods and the supply of services.

### ***Deferred taxation***

Deferred tax assets and liabilities are calculated based on the tax rate applying in the year in which the tax effect is expected to materialise. Deferred tax assets are shown under “Other receivables”. They are only recognised where it is reasonably likely that they will be recovered.

### ***Income Taxes***

Taxes on income are calculated based on existing tax law. The estimated liability is recorded under “Amounts due to tax authorities”.

### ***Translation method used for amounts expressed in foreign currency***

Receivables and payables denominated in non-Euro zone currencies are accounted for using the historic exchange rates in force at the transaction date. They are adjusted at year end to bring them into line with year end rates. Exchange differences are accounted for by means of a specific provision for unrealised exchange losses where a net loss emerges.

### ***Extraordinary income and charges***

Extraordinary income and charges do not form part of ordinary operating activities.

### ***Risks, commitments and guarantees***

Commitments and guarantees are disclosed in the memorandum accounts. The amounts reported reflect the Company’s commitment at the balance sheet date.

## ASSETS

### B)Fixed assets

#### I. Intangible assets

<i>Amounts in Euro</i>	
Balance at 31.12.01	4,855,825
Balance at 31.12.00	5,430,501
<b>Total Change</b>	<b>(574,676)</b>

#### *Movements on intangible assets*

<i>Euro thousands</i>	<b>Start-up and expansion costs</b>	<b>Concessions, licences, trademarks and similar rights</b>	<b>Other</b>	<b>Assets in progress</b>	<b>Total Intangible Assets</b>
<b>Balance at 31.12.00</b>	<b>4,196</b>	<b>1,065</b>	<b>169</b>	<b>0</b>	<b>5,430</b>
Increases during the year		856		19	875
Decreases & writedowns		(236)			(236)
Amortisation charge for year	(1,011)	(122)	(81)		(1,214)
<b>Balance at 31.12.01</b>	<b>3,185</b>	<b>1,563</b>	<b>88</b>	<b>19</b>	<b>4,856</b>

“Start-up and expansion costs” have been capitalised with the approval of the Board of Statutory Auditors. They include costs capitalised last year in relation to the Company’s quotation on the New Market regulated by the Italian Stock Exchange.

“Other intangible assets” mainly consists of leasehold improvements which are amortised on a straight-line basis over the remaining period of the related lease contracts.

Video game licences are recorded at historic purchase cost, including incidental charges. They are shown net of accumulated amortisation. Amortisation is calculated in relation to the actual use of the licences. Actual use of the licences is determined based on the ration between units produced and units sold during the contractually agreed period.

The financial statements do not include any capitalised research, development and advertising costs.

## II. Tangible fixed assets

<i>Amounts in Euro</i>	
Tangible fixed assets (net) at 31.12.01	927,991
Tangible fixed assets (net) at 31.12.00	1,122,031
<b>Total decrease</b>	<b>194,040</b>

### Movements on Tangible Fixed Assets

Movements during the year on tangible fixed assets:

<i>Euro thousands</i>	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other tangible fixed assets	Total
<b>Balance at 31.12.00</b>	<b>553</b>	<b>82</b>	<b>953</b>	<b>21</b>	<b>1,609</b>
Increases during the year		5			5
Decreases during the year			(86)		(86)
<b>Balance at 31.12.01</b>	<b>553</b>	<b>87</b>	<b>867</b>	<b>21</b>	<b>1,528</b>

Changes in accumulated depreciation:

<i>Euro thousands</i>	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other tangible fixed assets	Total
<b>Balance at 31.12.00</b>	<b>52</b>	<b>67</b>	<b>358</b>	<b>10</b>	<b>487</b>
Depreciation charge for year	13	9	130	7	159
Disposals and write-offs			(45)		(45)
<b>Balance at 31.12.01</b>	<b>65</b>	<b>76</b>	<b>443</b>	<b>16</b>	<b>600</b>

The main additions during the year regarded investments in industrial and commercial equipment. Specifically, these included the purchase of new equipment and servers for on-line gaming activities and new office automation equipment as part of the normal renewal of hardware.

Tangible fixed assets are shown at purchase cost, including direct incidental charges. Depreciation is charged on a straight-line basis applying the rates shown earlier in these Explanatory Notes. The rates used are felt to reflect the remaining useful life of the assets and their deterioration over time.

### III. Financial fixed assets

<i>Amounts in Euro</i>	
Balance at 31.12.01	2,111,318
Balance at 31.12.00	1,332,172
<b>Total increase</b>	<b>779,146</b>

The increase is largely due to the creation, purchase and increase in the share capital of subsidiaries. The increase includes Euro 450,000 relating to Game Network on Line Srl, Euro 318,000 relating to Game Network Ltd and Euro 11,000 relating to Game Network SpA.

The balance includes guarantee deposits of Euro 1,885 while the remaining Euro 2,109,000 consists of equity investments in subsidiary companies.

Equity investments in subsidiary companies may be analysed in detail as follows:

<i>Euro thousands</i>	
Evolution Entertainment S.r.l.	110
Communications & Promotions S.r.l.	123
Game Channel S.p.A.	1,045
Twine Holdings Ltd.	2
Game Network On Line S.r.l.	500
Game Network Ltd.	318
Game Network SpA	11
<b>Total equity investments in subsidiary companies</b>	<b>2,109</b>

The information about subsidiary companies required by Article 2427 (5) of the Italian Civil Code is set out below:

<b>Evolution Entertainment S.r.l.</b>	Amounts in Euro thousands
Head office	Milan
Quota capital	93
Loss for year ended 31.12.01	(66)
Net equity	(36)
Percentage interest held	100%
Book value	110

Evolution Entertainment S.r.l.'s loss for the year is largely due to direct taxation, as a result of non-deductible expenses, and to extraordinary items.

The investment continues to be carried at cost as it is felt that the difference between net equity and book value can reasonably be allocated to "Trademarks".

<b>Communications &amp; Promotions S.r.l.</b>	Euro thousands
Head office	Milan
Quota capital	93
Loss for year ended 31.12.01	(113)
Net equity	(22)
Percentage interest held	100%
Book value	123

The value of the investment has not been written down as the losses are not considered to be of a lasting nature.

<b>Game Channel S.p.A.</b>	Euro thousands
Head office	Milan
Share capital	258
Loss for year ended 31.12.01	(414)
Net equity	1
Percentage interest held	67%
Book value	1,045

<b>Game Network On Line S.r.l.</b>	Euro thousands
Head office	Milan
Share capital	500
Loss for year ended 31.12.01	(416)
Net equity	84
Percentage interest held	100%
Book value	500

This subsidiary was set up on December 20, 2000. The loss for the year is due to start-up costs which are expected to be recovered in the coming years.

<b>Twine Holdings Ltd.</b>	Euro thousands
Head office	London
Share capital	1
Result for year ended 31.12.01	0
Net equity	8
Percentage interest held	66.75%
Book value	2

Subsidiary Twine Holdings Ltd owns 100% of the UK company Eon Digital Entertainment Ltd.

<b>Game network SpA</b>	Euro thousands
Head office	Milan
Share capital	1,150
Loss for year ended 31.12.01	(798)
Net equity	352
Percentage interest held	1%
Book value	11

The loss for the year is due to costs regarding the start-up of the company activities. The valuation of the investment has been maintained at cost as it is not felt that the subsidiary's losses are of a lasting nature.

<b>Game Network Ltd</b>	Euro thousands
Head office	London
Share capital	1
Loss for year ended 31.12.01	(1,491)
Net equity	(1,779)
Percentage interest held	100%
Book value	318

The loss for the year is due to costs regarding the start-up of the company activities. The valuation of the investment has been maintained at cost as it is not felt that the subsidiary's losses are of a lasting nature.

## C) Current assets

### I. Inventory

<i>Amounts in Euro</i>	
Balance at 31.12.01	13,298,817
Balance at 31.12.00	9,204,952
<b>Total increase</b>	<b>4,093,865</b>

The increase may be analysed as follows:

<i>Amounts in Euro</i>	
Licences	1,087,183
Increase in finished goods inventory	3,006,682
<b>Total increase</b>	<b>4,093,865</b>

Finished goods consist of stocks of videogames titles sold on hand at year end.

### II. Receivables

<i>Amounts in Euro</i>	
Balance at 31.12.01	25,797,815
Balance at 31.12.00	39,050,506
<b>Total decrease</b>	<b>(13,252,691)</b>

The balance may be analysed by due date as follows:

<i>Euro thousands</i>	Due after less than a year	Due after more than a year	Due after more than 5 years	Total receivables
Trade accounts	17,961			17,961
Due from subsidiary companies	7,357			7,357
Other receivables	178	302		480
<b>Balance at 31.12.01</b>	<b>25,496</b>	<b>302</b>	<b>0</b>	<b>25,798</b>

The trade receivables balance is subject to the seasonal factors that also affect sales revenues.

With reference to CONSOB circular no 3369 of April 9, 1997, we inform you that at December 31, 12 2001 the Company had factored and insured receivables totalling around Euro 19 million and advances of Euro 1.1 million had been received. All of the balances factored and insured relate to invoices not yet due for payment. The total costs incurred in relation to these operations amount to around Euro 175,000.

The par value of receivables is brought into line with estimated realisable value by means of a provision for doubtful accounts. During the year, movements on the provision were as follows:

<i>Euro thousands</i>	Balance at 1.1.00	Provided	Utilised	Balance at 31.12.01
<b>Provision for doubtful accounts</b>	<b>117</b>		<b>117</b>	<b>0</b>

“Amounts due from subsidiary companies” include trade and financial receivables.

“Other receivables” may be analysed as follows:

<i>Euro thousands</i>	
IRPEG paid on account – due after more than one year	12
IRAP paid on account	140
Advances to suppliers	22
Deferred tax assets	88
Due from publishers	115
Due from INAIL (social security institution)	13
Due from tax authorities – withholding taxes suffered	87
Other receivables	3
<b>TOTAL OTHER RECEIVABLES</b>	<b>480</b>

The financial statements do not include any receivables due after more than five years.

### **III. Financial assets (current)**

<i>Amounts in Euro</i>	
Balance at 31.12.01	3,836,300
Balance at 31.12.00	4,529,151
<b>Total decrease</b>	<b>(692,851)</b>

The balance relates to a temporary investment of cash in mutual fund units with an emphasis on bonds.

The full balance has been offered as security for current account overdrafts and sureties issued .

### **IV. Cash at bank and on hand**

<i>Amounts in Euro</i>	
Balance at 31.12.01	2,143,901
Balance at 31.12.00	20,816,002
<b>Total decrease</b>	<b>(18,672,101)</b>

This balance includes cash on hand and positive bank current account balances at year end.

### **D) Prepayments and accrued income**

<i>Amounts in Euro</i>	
Balance at 31.12.01	221,817
Balance at 31.12.00	284,464
<b>Total decrease</b>	<b>(62,647)</b>

These items reflect income and charges which relate to periods other than that in which they are paid or recorded. They relate to two or more accounting periods.

There is no accrued income so the entire balance consists of prepaid expenses:

<i>Euro thousands</i>	
Telephone charges	2
Insurance	12
Lease instalments	47
Contract costs	49
Maintenance costs	3
Licence costs	102
Other prepaid expenses	7
<b>Total prepayments</b>	<b>222</b>

## LIABILITIES AND SHAREHOLDERS' EQUITY

### A) Shareholders' equity

<i>Euro thousands</i>	31.12.00	Allocation of 2000 profits	Euro Loss for 2001 Conversion	31.12.2001
Share capital	1,614		11	1,625
Share premium reserve	39,677		(11)	39,666
Legal reserve	259			259
Retained earnings (accumulated losses)	1,256	(2,291)		(1,035)
Loss for the year	(2,291)	2,291	(13,631)	(13,631)
<b>Total shareholders' equity</b>	<b>40,515</b>	<b>0</b>	<b>0</b>	<b>(13,631)</b>
				<b>26,884</b>

At December 31, 2001, wholly subscribed and paid up share capital amounted to Euro 1,625,000 and consisted of 12,500,000 shares with a nominal value of Euro 0.13 each.

In 2001, the only operation regarding shares and share capital took place on November 26, 2001 when an extraordinary general meeting approved a resolution to translate the share capital into Euro pursuant to Article 17 of Legislative Decree no 213 of June 24, 1998 as amended by Legislative Decree no 206 of June 15, 1999 and Article 5 of EU Regulation no 1103/97. The value of each ordinary share was rounded to Euro 0.13 under Article 3 of Legislative Decree 213/1998 resulting in an increase of Lire 1.7151 per share. Pursuant to the extraordinary general meeting resolution, share capital was increased free of charge for translation and rounding purposes by Lire 21,438,750 from Lire 3,125,000,000 to Euro 1,625,000. This was effected by transferring an appropriate amount of the "Share premium reserve" reported in the financial statements at December 31, 2000 approved by a General Meeting of April 27, 2001 to share capital.

As a result, at December 31, 2001, the Company's share capital was as follows:

Type	Number of shares	Par Value
Ordinary Shares	12,500,000	0.13
Subscribed during the year	0	0

There are no dividend-bearing shares, convertible bonds or other forms of securities.

## B) Employee termination indemnity provision

<i>Amounts in Euro</i>	
Balance at 31.12.01	267,928
Balance at 31.12.00	198,044
<b>Total Increase</b>	<b>69,884</b>

The increase in the employee termination indemnity provision may be analysed as follows:

<i>Euro thousands</i>	
Employee termination indemnity provision at December 31, 2000	198
Utilised	(70)
Provided during the year	140
<b>Employee termination indemnity provision at December 31, 2001</b>	<b>268</b>

## *Employees*

The average number of employees during 2001 (i.e. the average of month end employee numbers) and the number of employees at year end was as follows:

<i>Category</i>	<i>Average no of employees</i>	<i>Year end no of employees</i>
Managers	3	3
Office workers	62	58
Manual workers and apprentices	2	2
<b>TOTAL</b>	<b>67</b>	<b>63</b>

## D) Payables

<i>Amounts in Euro</i>	
Balance at 31.12.01	25,784,182
Balance at 31.12.00	41,051,977
<b>Total Decrease</b>	<b>(15,267,795)</b>

Payables are shown at nominal value. They are analysed by due date below:

<i>Euro thousands</i>	<b>Due after less than a year</b>	<b>Due after more than a year</b>	<b>Due after more than 5</b>	<b>Total Payables</b>
Due to banks	17,046	92		17,138
Trade payables	6,048			6,048
Due to subsidiary companies	300			300
Due to tax authorities	1,718			1,718
Due to social security institutions	147			147
Other payables	433			433
<b>Balance at 31.12.01</b>	<b>25,692</b>	<b>92</b>	<b>0</b>	<b>25,784</b>

“Amounts due to banks after less than a year” include bank current account overdrafts, loans and long-term loan instalments due after less than a year.

“Amounts due to banks after more than a year” include long-term loan instalments due after more than a year. The loan in question is guaranteed by a mortgage on the real estate property owned by the Company and is repayable after less than five years.

“Trade payables” includes trade accounts payables and the accrual for goods received not invoiced.

“Amounts due to subsidiary companies” include trade payable balances.

“Amounts due to tax authorities” include VAT payable and amounts deducted at source from employee salaries and freelance staff remuneration yet to be paid over to the authorities.

“Amounts due to social security institutions” are due after less than a year and may be analysed as follows:

<i>Euro thousands</i>	
Due to supplementary pension funds	13
Due to INPS	97
Due to INAIL	17
Due to ENASARCO	20
<b>Total amounts due to social security institutions</b>	<b>147</b>

“Other payables” are due after less than a year. They consist entirely of accrued holiday pay and thirteenth and fourteenth months’ salary accruals.

***E) Accrued expenses and deferred income***

<i>Amounts in Euro</i>	
Balance at 31.12.01	257,404
Balance at 31.12.00	4,746
<b>Total increase</b>	<b>252,658</b>

These items reflect income and expenses which relate to a period other than that in which they are paid or recorded. They relate to two or more accounting periods.

***Memorandum accounts***

Memorandum accounts may be analysed as follows:

<i>Euro thousands</i>	
Sureties issued to third parties	46
Real securities given to third parties	775
Finance lease commitments	423
<b>Memorandum accounts</b>	<b>1,244</b>

“Real securities” entirely relates to the mortgage on the real estate property in Via Labus, 15/3, Milan issued in relation to a long-term loan from Monte del Paschi di Siena.

“Finance lease commitments” consist of amounts to fall due under finance lease agreements. They may be analysed as follows:

<i>Euro thousands</i>	
Servers and Internet equipment	266
Other fixed assets	157
<b>Finance lease commitments</b>	<b>423</b>

## INCOME STATEMENT

### A) Value of production

<i>Amounts in Euro</i>	
Balance at 31.12.01	39,342,440
Balance at 31.12.00	49,292,312
<b>Total Decrease</b>	<b>(9,949,872)</b>

The reasons for the decrease in value of production are set out in the Report of the Board of Directors on Operations.

<i>Euro thousands</i>	<b>31.12.01</b>	<b>31.12.00</b>	<b>Change</b>
Revenues from sales and services	33,903	47,545	(13,642)
Change in inventory of finished goods	4,094	(1,083)	5,177
Other revenues and income	1,345	2,830	(1,485)
<b>Total value of production</b>	<b>39,342</b>	<b>49,292</b>	<b>(9,950)</b>

### B) Production costs

<i>Amounts in Euro</i>	
Balance at 31.12.01	37,101,726
Balance at 31.12.00	49,116,129
<b>Total Decrease</b>	<b>(12,014,403)</b>

The decrease may be analysed as follows:

<i>Amounts in Euro</i>	<b>31.12.01</b>	<b>31.12.00</b>	<b>Change</b>
Raw materials and goods	22,335	32,429	(10,094)
Services	9,224	11,695	(2,471)
Leases and rentals	642	566	76
Wages and salaries	1,973	1,518	455
Social contributions	679	536	143
Employee termination indemnity	140	105	35
Other personnel costs	3	15	(12)
Amortisation of intangible assets	1,214	1,260	(46)
Depreciation of tangible fixed assets	159	147	12
Other writedowns	236	0	236
Provisions for risks	0	117	(117)
Other provisions	0	0	0
Sundry operating charges	497	728	(231)
<b>Total production costs</b>	<b>37,102</b>	<b>49,116</b>	<b>(12,014)</b>

Analysis of the main items is contained in the Directors' Report on Operations.

### C) Financial income and charges

Financial income may be analysed as follows:

<i>Euro thousands</i>	
Interest on securities	10
Exchange gains	380
Bank interest income	415
<b>Total financial income</b>	<b>805</b>

Financial charges may be analysed as follows:

<i>Euro thousands</i>	
Exchange losses	204
Bank interest and charges	1,593
Factoring interest and charges	232
Other financial charges	13
Expenses re advances on receivables	161
<b>Total financial charges</b>	<b>2,203</b>

### *Extraordinary income and charges*

Extraordinary income may be analysed as follows:

<i>Euro thousands</i>	
Non-existent liabilities	174
Other unaccrued prior year income	19
Capital gain on asset transfer	150
<b>Total extraordinary income</b>	<b>343</b>

“Non-existent liabilities” arose as a result of settlements reached with suppliers. The capital gain on asset transfer arose following the transfer of the on-line gaming business to subsidiary Game Network On Line S.r.l. on July 31, 2001.

Extraordinary charges may be analysed as follows:

<i>Euro thousands</i>	
Adjustment to prior year revenues	5,973
Writedowns of financial receivables due from subsidiaries	8,804
<b>Total extraordinary charges</b>	<b>14,777</b>

Extraordinary charges essentially consist of the following: returns from clients of products sold during the prior year – Euro 5,973 thousands and the writedown of loans made to UK subsidiaries – Euro 8,804 thousands.

In relation to the return of previously sold products, the Company faced up to the crisis on the market, supported its main customers and created shelf space for new products by meeting client requirements part way and implementing a policy involving the extraordinary return of some products sold the prior year. This policy was implemented in order to cope with the period of strong growth seen in the last two months of the year. Management believes the right decision has been made given the increase in sales recorded in the first two months of 2002 – a 113% increase on the first two months of 2001 from Euro 1,766 thousands to Euro 3,766 thousands.

The writedown of loans made to UK subsidiaries Twine Holdings Ltd and Eon Digital Entertainment Ltd enabled the Company to absorb the losses made by these subsidiaries. The UK subsidiaries’ losses were largely due to the major problems encountered with the overseas sales network of US and German distributors. The publishing activities formerly carried out by the UK companies were transferred to Italy in 2001. This decision means that the losses recorded in 2001 will not be repeated.

*Taxes on income for the year*

<i>Amounts in Euro</i>	
Balance at 31.12.01	39,715
Balance at 31.12.00	80,567
<b>Total Decrease</b>	<b>(40,852)</b>

The change in taxes on income may be analysed as follows:

<i>Amounts in thousands of Euro</i>	<b>31.12.01</b>	<b>31.12.00</b>	<b>Change</b>
IRAP	40	164	(124)
DEFERRED TAX LIABILITY - IRPEG	0	(84)	84
<b>Total taxes on income</b>	<b>40</b>	<b>80</b>	<b>(40)</b>

#### *Directors and statutory auditors' emoluments*

Pursuant to the CONSOB regulation which implemented Legislative Decree no 58 of February 24, 1998, the following table contains details of the emoluments paid to members of the Board of Directors and the Board of Statutory Auditors. At the balance sheet date, there were no General Directors in terms of Article 2396 of the Civil Code.

*Amounts in Euro*

<i>Name</i>	<i>Position</i>	<i>Period of office in 2001</i>	<i>Emoluments</i>	<i>Other emoluments (1)</i>	<i>Other emoluments (2)</i>
<b>Board of Directors</b>					
Abramo Galante	Chairman and Managing Director	From 01.01.2001 to 31.12.2001	258,228		
Raffaele Galante	Managing Director	From 01.01.2001 to 31.12.2001	258,228		
Lidia Florean	Director	From 01.01.2001 to 31.12.2001	134,279		
John Burns	Director	From 01.01.2001 to 31.12.2001			199,389
Davide Galante	Director	From 01.01.2001 to 31.12.2001			
Sem Bruno Moiola	Director	From 01.01.2001 to 31.12.2001			134,485
Bruno Soresina	Director	From 01.01.2001 to 31.12.2001	6,512		
Dario Treves	Director	From 01.01.2001 to 31.12.2001		155,450	207
Sergio Treves	Director	From 01.01.2001 to 31.12.2001	6,512		
<b>Board of Statutory Auditors</b>					
Prof. Marco Confalonieri	Chairman	From 01.01.2001 to 07.06.2001	7,156		
Franco Gaslini	Statutory Auditor	From 01.01.2001 to 26.11.2001	11,766		
Franco Gaslini	Chairman	From 26.11.2001 to 31.12.2001	1,431		
Franco Tarantola	Statutory Auditor	From 01.01.2001 to 31.12.2001	13,668		
Piergiorgio Picozzi	Substitute Statutory Auditor	From 01.01.2001 to 07.06.2001			
Piergiorgio Picozzi	Chairman	From 07.06.2001 to 26.11.01	8,586		
Piergiorgio Picozzi	Statutory Auditor	From 26.11.2001 to 31.12.2001	1,070		
Pietro Ottone	Substitute Statutory Auditor	From 26.11.2001 to 31.12.2001			
Maurizio Picciotto	Substitute Statutory Auditor	From 01.01.2001 to 31.12.2001			

(1) Other emoluments from Digital Bros S.p.A.

(2) Other emoluments from subsidiary companies.

Pursuant to CONSOB resolution no 1971/99, details of stock options allocated to the Directors are provided below:

SHARE ALLOTMENT RIGHTS OR OPTIONS ISSUED DURING THE YEAR						SHARES ALLOTTED OR OPTIONS EXERCISED DURING THE YEAR		
Shares allotted without payment		Purchase or subscription option rights				Shares allotted without payment	Purchase or subscription option rights	
Name and surname	No of shares that may be allotted	Allotment date	No of shares that may be purchased or subscribed	Price at which option rights may be exercised	Period in which rights may be exercised	No of shares allotted	No of shares purchased or subscribed	Option exercise price
Floean Lidia	375	0	7.500	16€	(1)	0	0	0
Burns John	750	0	15.000	16€	(1)	0	0	0
Moioli Sem	750	0	15.000	16€	(1)	0	0	0
Soresina Bruno	175	0	3.500	16€	(1)	0	0	0
Treves Dario	375	0	7.500	16€	(1)	0	0	0
Treves Sergio	175	0	3.500	16€	(1)	0	0	0

(1) The Stock Option plan approved by the Extraordinary General Meeting held on April 19, 2000 will run for four years. The option rights granted by the plan may be exercised as from April 1 of each year as follows: 5% in 2001, 20% in 2002, 35% in 2003, 40% in 2004. Once they have matured options may be exercised at any time before August 31, 2004.

In accordance with disclosure requirements, we provide below a list of equity investments held by the Directors. No shares are held by the members of the Board of Statutory Auditors.

Name and surname	Company in which investment is held in	No of shares held at end of previous year	No of shares purchased	No of shares sold	No of shares held at end of current year
Abramo Galante	Digital Bros S.p.A.	4,813,136	0	0	4,813,136
Raffaele Galante	Digital Bros S.p.A.	4,813,136	0	0	4,813,136
Davide Galante	Digital Bros S.p.A.	283,728	0	0	283,728
John Burns	Twine Ltd.	33.25%	0	0	33.25%
Sem Moioli	Game Channel S.p.A.	165,000	0	0	165,000

The Board of Directors of the company will remain in office until December 31, 2002. The Board of Statutory Auditors have been appointed until the same date.

We declare that the financial statements, comprising the Balance Sheet, Income Statement and Explanatory Notes, are consistent with the accounting records which are maintained in accordance with the law. They provide a true and fair view of the balance

sheet and financial position and of the result for the year.

**For and on behalf of the Board of Directors**

**The Chairman**  
(Abramo Galante)

## **Directors' Report on the Operations of Digital Bros S.p.A.**

This report on operations relates to the financial statements of Digital Bros S.p.A. for the year ended December 31, 2001.

A loss of around Euro 13.6 million is reported for the year ended December 31, 2001.

Revenues from sales and services amounted to Euro 33.9 million.

The loss was largely due to two factors: the ongoing stagnation in the video games market caused by the introduction of new gaming platforms and the absorption of the extraordinary losses made by the UK subsidiaries. The losses made by UK subsidiaries Twine Holdings Ltd and Eon Digital Entertainment Ltd were reflected in the Digital Bros S.p.A. income statement through the writedown of Euro 8.8 million of financial receivables due from these companies. We believe that this writedown is reasonable as the closure of the UK businesses will generate sufficient funds in 2002 to pay off the remaining balance due to the parent company and there will be no further impact on the Group income statement.

The year 2001 saw the continuation of the rationalisation process regarding the Company's investments. It involved the transfer of Game Channel S.p.A.'s television business to Game Network S.p.A., the transfer of the on-line gaming business from Digital Bros S.p.A. to Game Network On Line S.r.l. and the merger of Game Channel S.p.A., Evolution Entertainment S.r.l. and Communications & Promotions S.r.l. with Digital Bros S.p.A.. These mergers will take place with effect from January 1, 2002 and will be valid under the merger plans dated February 26, 2002.

During the year, Digital Bros also began operating on the UK Digital Television market through Game Network Ltd and on the Italian advertising market with AD1 S.r.l..

Details of the amounts reported in the financial statements are provided in the Explanatory Notes to the Financial Statements. In this report, we only consider those items that affected operating activities.

### *Video game distribution and co-publishing in Italy*

Digital Bros S.p.A.'s main business is the localisation of video games for the Italian market and their subsequent distribution in Italy. Using the Halifax brand name, Digital Bros S.p.A. distributes the products of the international video games publishers which it has exclusive rights to represent in Italy.

Localisation or co-publishing involves making language and cultural changes to video games to adapt them to the Italian market as well as the translation into Italian of the original game manuals and the dubbing of any voices used in the game. The localisation process is carried out by Digital Bros and the video game publishers working closely together.

Throughout almost all of 2001, the market was fairly hesitant with the first signs of recovery only visible in the last two months of the year. This was due to the fact that the transition from the generation of 64 bit consoles (Sony Playstation, Nintendo 64) to the new generation of 128 bit Internet ready consoles is still underway. This process will also see new hardware manufacturers enter the market for the first time. Microsoft has never operated on this market but is set to launch its Xbox console in Europe in April. It will be followed by Nintendo which has scheduled the European launch

of its new Nintendo Gamecube console for May. All of this has led to uncertainty on the market and a prolonged transition phase.

As a result, revenues from sales and services fell by 29% during the year. They may be analysed by type of revenues as follows:

<b>Euro thousands</b>	<b>31/12/00</b>	<b>31/12/01</b>	<b>Difference</b>	<b>%</b>
Distribution of video games for consoles	38,353	27,602	(10,751)	-28%
Distribution of video games for PC	5,683	5,992	309	5%
Distribution of accessories	429	222	(207)	-48%
<b>Total Distribution of Products</b>	<b>44,464</b>	<b>33,816</b>	<b>(10,648)</b>	<b>-24%</b>
Other Products and Services	1,400	87	(1,312)	-
<b>Total Distribution</b>	<b>45,863</b>	<b>33,903</b>	<b>(11,960)</b>	<b>-26%</b>
Revenues from subsidiary companies	1,682	0	(1,682)	-
<b>Total revenues from sales and services</b>	<b>47,545</b>	<b>33,903</b>	<b>(13,642)</b>	<b>-29%</b>

In line with the transitional phase the market is going through, the largest decrease – Euro 10.6 million – related to the distribution of video games for consoles, historically the main activity of Digital Bros.

The following table shows even more clearly that one of the major reasons for the slump is the fall in sales of video games for the Sony Playstation. These fell by Euro 20,285,000 compared to the prior year, a fall of 69%, and this was only partially compensated for by increased sales of video games for the new generation Sony Playstation 2. Sales of Playstation 2 games increased by 324% compared to 2000, a real increase of Euro 10,154,000.

<b>Euro thousands</b>	<b>31/12/00</b>		<b>31/12/01</b>		<b>Change</b>	
	Units	Revenues	Units	Revenues	Units	Revenues
Sega Dreamcast	67,625	1,912	9,145	188	-86%	-90%
Nintendo Gameboy	175,392	3,101	146,824	2,584	-16%	-17%
Nintendo Gameboy Advance	0	0	53,781	1,962	-	-
Nintendo 64	30,729	637	40,045	293	30%	-54%
Sony Playstation	1,341,308	29,565	502,926	9,280	-63%	-69%
Sony Playstation 2	86,275	3,139	346,609	13,293	302%	324%
<b>Total distribution – Consoles</b>	<b>1,701,329</b>	<b>38,353</b>	<b>1,099,330</b>	<b>27,601</b>	<b>-35%</b>	<b>-28%</b>
Personal Computer	306,749	5,683	415,629	5,992	35%	5%
<b>Total distribution – Video games</b>	<b>2,008,078</b>	<b>44,036</b>	<b>1,514,959</b>	<b>33,593</b>	<b>-25%</b>	<b>-24%</b>

The overall decrease in sales of video games for Sony consoles was Euro 10,131 thousands. This accounts for much of the fall in turnover for the Company. The fall in sales for consoles set to depart from the market very soon is also clear to see i.e. Sega Dreamcast down by Euro 1,724 thousands and the Nintendo 64 down by Euro 344 thousands.

Meanwhile, the Euro 517 thousands decrease in sales of video games for the Nintendo Gameboy should be considered bearing in mind the Euro 1,962 thousands increase in sales of video games for the Gameboy Advance handheld console launched by Nintendo in 2001.

Sales remained fairly steady in the other market segments. Sales of video games for PCs increased by 5% (Euro 309 thousands) compared to last year. This increase was the result of a 35% increase in volumes and a fairly significant fall in average prices (-22%).

<b>Amounts in Euro</b>	<b>31/12/00</b>	<b>31/12/01</b>	
	Average Price	Average Price	Change
Sega Dreamcast	28.3	20.6	-27%
Nintendo Gameboy	17.7	17.6	0%
Nintendo Gameboy Advance	0.0	36.5	-
Nintendo 64	20.7	7.3	-65%
Sony Playstation	22.0	18.5	-16%
Sony Playstation 2	36.4	38.4	5%
<b>Total Distribution - Consoles</b>	<b>22.5</b>	<b>25.1</b>	<b>11%</b>
Personal Computers	18.5	14.4	-22%
<b>Total Distribution Video games</b>	<b>21.9</b>	<b>22.2</b>	<b>1%</b>

In order to cope with the lasting cyclical crises affecting the market and support our longstanding clients, enabling newly released video games to have enough shelf space, in the second half of 2001 Digital Bros sought to meet some of its clients' requirements by introducing a one-off, extraordinary policy of accepting returns of several products already sold in 2000 in order to help clients cope with the period of strong growth seen in the last two months of 2001. Management believes that this decision has paid off given that sales in the first two months of 2002 are 113% up on those for the first two months of 2001. The actual increase is from Euro 1,766 thousands last year to Euro 3,766 thousands in 2002.

Another distinctive feature of the sector is that it is subject to seasonal factors. This means that the Company makes around 65% of its total sales in the first and last quarter of the year. This must be borne in mind in order to understand the equity structure and leads to an increase in net working capital at year end.

Almost all of sales revenues were generated in Italy apart from a small amount in Italian speaking parts of Switzerland and in the Republic of San Marino.

Distribution activities are carried out by a sales network comprising 32 agents and sales staff covering the whole of Italy, by telesales staff and by cash and carry stores operated by the Sales Department. Halifax brand products are traditionally distributed via independent retailers and large-scale retail chains. The large-scale retail chain channel did not contract significantly during the year and actually increased in importance as a percentage of total sales revenues; this trend has been typical in recent years.

Revenues may be analysed by distribution channel as follows (amounts in Euro thousands):

<b>Euro thousands</b>	<b>31/12/00</b>	<b>31/12/01</b>	<b>Difference</b>	<b>%</b>	<b>% of total</b>
Independent retailers	26,839	18,321	(8,518)	-32%	54%
Large-scale retail chains and key accounts	14,588	13,850	(738)	-5%	41%
Other distribution channels	3,037	1,645	(1,392)	-46%	5%
<b>Total distribution revenues - Italy</b>	<b>44,464</b>	<b>33,816</b>	<b>(10,648)</b>	<b>-24%</b>	

Large-scale retail chains and key accounts include chains specialising in consumer electronics, computer equipment and leading names in the large-scale retail field. Sales through this channel have fallen by less than those through other distribution channels which tend to be affected to a greater extent by phases of stagnation such as that encountered by the market as a whole.

The decrease in revenues from other products and services is due to the fact that last year the publishers reimbursed some of the costs incurred by Digital Bros to implement marketing strategies for the video games distributed. Market conditions meant that this was not possible in 2001.

### Costs

#### Purchases of raw, ancillary and consumable materials and goods for resale

As the revenues trend shows, the Company's main activity during the year was the distribution of video games. This is a commercial activity and, as a result, "purchases of raw materials and goods for resale" are high. These purchases consist almost entirely of goods for resale.

Purchases fell by Euro 10,094,000 during the year from Euro 32,429 thousands to Euro 22,334 thousands. This fall of around 31% is directly related to the decrease in turnover over the same period.

#### Services

The cost of services fell by Euro 2,472 thousands from Euro 11,696 thousands At December 31, 2000 to Euro 9,224 thousands at December 31, 2001. The main changes over the period are set out below:

<i>Euro thousands</i>	<b>31.12.2000</b>	<b>31.12.2001</b>	<b>Difference</b>	<b>%</b>
Advertising, sponsorship, trade fairs and exhibitions	3,458	1,800	(1,658)	-48%
Commission and incidental charges	1,159	779	(380)	-33%
Transport and freight costs	791	674	(117)	-15%
Distribution costs	42	4	(38)	-90%
Insurance	85	130	45	53%
Professional advisors, freelance staff, lawyers and notaries	343	759	414	121%
Postage and telephone	2,039	1,137	(902)	-44%
Travel and subsistence costs	175	242	67	38%
Entertainment	87	25	(62)	-71%
Sundry utilities	36	29	(7)	-18%
Temporary staff costs	112	125	13	12%
Maintenance costs	105	113	8	8%
Directors' fees	643	703	60	9%
Statutory auditors' fees	41	44	3	7%
Purchase of licences	2,385	2,036	(349)	-15%
Other general and administrative costs	195	624	429	220%
<b>Total</b>	<b>11,696</b>	<b>9,224</b>	<b>(2,472)</b>	<b>-21%</b>

The fall in advertising and marketing costs is due to market trends and to the need to contain costs. A careful policy aimed at diversifying resources enabled increased investment in co-marketing and trade marketing activities thus ensuring maximum visibility for our products in sales outlets (especially large-scale retail stores and Key accounts) .

The Euro 902 thousands fall in "postage and telephone charges" is almost entirely due to the fact that telephone charges towards Nopay S.r.l. were incurred last year but not to a significant extent this year.

The amount reported under "Licences" represents the amount paid to Disney Interactive under a co-publishing and distribution agreement entered into with Digital Bros on October 1, 2000 and

subsequently renewed for a further twelve months. Unlike other Italian and international licences which are capitalised as intangible assets, the licences under this contract are charged directly to the income statement as the contract regarding their use relates to a period of less than a year.

### ***Use of third party assets / Leases and rentals***

The use of third party assets / leases and rentals mainly consist of costs incurred to lease premises used for operating purposes and to costs incurred under finance lease agreements for fixed assets.

These costs increased from Euro 566 thousands in 2000 to Euro 642 thousands in 2001. The Euro 76 thousands increase is due to the routine increase in the real estate rental costs and, to a lesser extent, to higher charges under finance lease agreements.

### ***Personnel costs***

Personnel costs have increased by Euro 621 thousands while average cost per employee has risen by Euro 7,75 as follows:

<b>Euro thousands</b>	<b>31.12.2000</b>	<b>31.12.2001</b>	<b>Difference</b>	<b>%</b>
Wages and salaries	1,518	1,973	455	30.21
Social contributions	536	679	143	26.75
Employee termination indemnity	105	140	35	33.01
Other personnel costs	15	3	(12)	-
<b>Total personnel costs</b>	<b>2,174</b>	<b>2,795</b>	<b>621</b>	<b>28.56</b>
Average number of employees	64	67	3	4.69
<b>Average cost</b>	<b>33.97</b>	<b>41.72</b>	<b>7.75</b>	<b>22.81</b>

The higher average cost per employee is due to several factors:

- Standard pay increases
- The recruitment of more highly qualified staff.

### **Financial charges**

Financial charges remained more or less in line with prior year. They increased from Euro 2,100 thousands in 2000 to Euro 2,203 thousands in 2001. It should be recalled that this year's balance includes Euro 204 thousands of exchange gains that were not recorded under this item last year. This means that, comparing like with like, there has actually been a decrease of Euro 101 thousands compared to last year.

### **Investments**

Further information about investments can be found in the explanatory notes to the financial statements.

### **Research and development activities**

The Company was not involved in any significant research and development activities.

## Dealings with subsidiary companies and related parties

Equity investments acquired and companies set up are set out in the following table:

Company acquired or set up	% of shares or quotas owned at end of prior year	% of shares or quotas acquired	% of shares or quotas subscribed	% of shares or quotas owned at end of current year
Evolution Entertainment S.r.l. (2)	100%	0%	0%	100%
Communications & Promotions S.r.l. (2)	100%	0%	0%	100%
Game Channel S.p.A. (2)	67%	0%	0%	67%
Twine Holdings Ltd.	66.75%	0%	0%	66.75%
EON Digital Entertainment Ltd. (1)	100%	0%	0%	100%
Game Network On Line S.r.l.	100%	0%	0%	100%
Game Network Ltd.	0%	100%	0%	100%
Game Network S.p.A. (3)	0%	0%	100%	100%
Ad1 S.r.l. (3)	0%	0%	100%	100%

- (1) Acquired indirectly through subsidiary Twine Holdings Ltd  
(2) Company merged into Digital Bros S.p.A. with effect from January 1, 2002  
(3) Acquired indirectly through subsidiary Game Channel S.p.A.

At December 31, 2001, the Company had the following subsidiaries:

Communications & Promotions S.r.l. - This company specialises in marketing, communications, buying advertising space, promoting and organising events as a services company. Digital Bros S.p.A. holds 100% of the quota capital. The company was merged into Digital Bros S.p.A. with effect from January 1, 2002.

Evolution Entertainment S.r.l. This company publishes software and distributes it via newstands. Evolution Entertainment S.r.l.'s distribution activities are split between Business to business (sale of video games together with magazines and newspapers owned by third parties) and business to consumer (sale of video games together with own monthly magazines). Digital Bros S.p.A. owns 100% of the quota capital. The company was merged into Digital Bros S.p.A. with effect from January 1, 2002.

Game Network On Line S.r.l. conducts on-line gaming activities. These consist of offering gamers access, upon payment of a subscription, to on-line games run on its server and only available on Internet. On July 31, 2001, Digital Bros S.p.A. transferred the on-line gaming business it had previously run directly to Game Network On Line S.r.l. Digital Bros owns 100% of the quota capital in the company.

Game Channel S.p.A. is a sub-holding company that owns the Game Network trademark and a 100% stake in Game Network S.p.A. Game Channel indirectly owns 100% of Ad1 S.r.l. through its

subsidiary Game Network. On July 31, 2001, Game Channel S.p.A. transferred its digital TV business to Game Network S.r.l. At December 31, 2001, Digital Bros S.p.A. owned 67% of the company's share capital i.e. 335,000 shares. The company was merged into Digital Bros S.p.A. with effect from January 1, 2002.

Game Network S.p.A. broadcasts and produces digital television programmes. Game Channel S.p.A. holds 100% of its share capital

Game Network Ltd broadcasts and produces digital television programmes for the UK market. Digital Bros holds 100% of its share capital.

AD1 S.r.l. operates as an advertising agency. Its activities include the sale of advertising space on the Game Network digital TV channel and on the web sites of third party clients. Its share capital is 100% owned by Game Network S.p.A.

Twine Holding Ltd is involved in international publishing. Digital Bros S.p.A. owns 66.75% of its share capital.

Eon Digital Entertainment Ltd carries out advertising activities. Its share capital is 100% owned by Twine Holdings Ltd..

Pursuant to CONSOB Communications DAC/RM/97001574 of February 20, 1997 and DAC/98015375 of February 27, 1998, we note, as required by Art. 2359 of the Italian Civil Code and International Accounting Standard (IAS) no 24 "Related Party Disclosures", that relations with Digital Bros Group companies relate to direct and indirect subsidiaries with which trade and financial relations are maintained at normal market conditions. At December 31, 2001, these relations were summarised as follows:

<i>Euro thousands</i>		
<b>Subsidiary companies</b>		
Sales/(Purchases of goods)	21	(457)
Financial receivables/ (payables)	6,918	(328)
Trade receivables/(payables)	767	(300)
Other income/(charges)	9,106	(9,137)

<i>Euro thousands</i>		
<b>Related Parties</b>		
Sales/(Purchases of goods)	910	0
Receivables / (Payables)	2,475	0

As at December 31, 2001, relations between the related parties were regulated by the following contracts:

1. contract signed in July 2000 by Digital Bros S.p.A., as supplier of services, and the subsidiaries C&P, Evolution Entertainment S.r.l. and Game Channel S.p.A. for the use of administrative, operating and logistics functions. The contract has no time limit and requires the subsidiaries to pay the company an amount equal to cost plus a premium of 5%.
2. Service contract signed in May 2000 by Communications & Promotions S.r.l., on the one hand, and Digital Bros, Evolution Entertainment S.r.l. and Game Channel S.p.A., on the other. It relates to the supply of marketing services including, for example, organisation of public events, PR services, graphics work for advertising. The agreement also provides that, authorised by and on behalf of the other parties, Communications and Promotion S.r.l. shall enter into advertising and/or sponsorship agreements and that it may use for this purpose the brand names and trademarks owned by Digital Bros S.p.A. , Evolution Entertainment S.r.l. and Game Channel S.p.A.. The contract states that the other parties shall pay Communications and Promotions S.r.l. an amount equal to the cost incurred plus a premium of 5% for external costs and an amount equal to cost incurred plus a premium of 20% for time spent by its staff on the various projects.
3. Contract signed in July 2000 by Digital Bros S.p.A. and NoPay S.r.l. for the supply of services by Digital Bros S.p.A. Under the agreement, the company shall bill NoPay S.r.l. for telephone charges incurred, the use of Broadband, the use of equipment and the cost of personnel involved in developing and maintaining the nopay.it web site. NoPay S.r.l. shall pay the company the amount of all costs incurred and documented plus a premium of 5%.

The company does not hold any of its own shares or shares in parent companies either directly or through any trust company or other intermediary.

### **Significant subsequent events**

On February 26, 2002, the documents regarding the merger of Game Channel S.p.A., Evolution Entertainment S.r.l. and Communications & Promotions S.r.l. into Digital Bros S.p.A. were finalised. The remaining 33% of Game Channel S.p.A. was acquired by increasing the share capital of Digital Bros S.p.A. by Euro 52,000 involving the issue of 400,000 shares with a par value of Euro 0.13 in favour of minority shareholder Sem Moioli. Following the merger, the Game Network trademark, together with other brands and trademarks owned by the Group, became directly owned by Digital Bros.

In February 2002, the Company signed a non-exclusive distribution agreement with Nintendo for the distribution in Italy of software produced by the Japanese company for its Gameboy and Gameboy Advance handheld consoles and, from May 5, 2002, for its new Nintendo Gamecube console.

### **Business outlook**

Considering the sales recovery seen in the last two months of 2001, the positive market performance in January and February 2002 with turnover up by 113% compared to the first two months of 2001 and the likely positive impact of the contract entered into with Nintendo, the Directors believe that 2002 revenues should exceed Euro 60 million. This would be in line with the strategic plan approved by the Board of Directors on October 1, 2001 and would represent an increase of 76% compared to 2001.

In terms of profitability, given the cost saving policy already implemented together with measures intended to make fixed costs variable by using various forms of outsourcing and make the income statement structure more flexible, we believe that a net profit is possible for the year in progress.

### **Information about compliance with the recommendations contained in the Self-regulatory Code for listed companies pursuant to Section IA.2.12 of the New Market Regulations**

Prior to its admission to listing on the New Market, Digital Bros S.p.A. adopted the Self-regulatory Code for listed companies. This completed the regulatory and self-regulatory framework introduced by Legislative Decree no 58 of February 24, 1998 and adopted by CONSOB through regulation no 11971 of May 14, 1999 as subsequently amended.

We would like to highlight the following principles contained in the Code which have already been implemented: statutory provision aiming to ensure the presence on the Board of Statutory Auditors of at least one member elected by minority shareholders; the presence of non-executive directors, including independent directors, on the Board of Directors; the appointment of an Internal Control Committee and of a Remuneration Committee for managing directors and for directors with specific responsibilities; the creation of a specific function to maintain shareholder relations; the introduction of a system of variable remuneration (stock option plan) for directors and employees and the adoption of general meeting rules.

On the whole, the Company's Corporate Governance situation is in line with the recommendations and rules contained in the Self-regulatory Code and is based on organisational procedures, the most important of which include:

- The Board of Directors meets ten times a year. At these meetings it discusses the performance of the various sectors of the business, actual quarterly results, strategic plans and the main operations as presented by the executive directors
- The current Board of Directors has eight members, two of whom, the Chairman and the Managing Directors, have executive powers
- The Chairman and the Managing Directors constantly put operations with a major impact on the profitability, net equity and financial position before the Board of Directors for its approval. This is despite the fact that their executive powers are very far reaching
- The Board has set up two sub-committees. The Internal Control Committee consisting of two external non-executive directors ( Bruno Soresina and Sergio Treves) and the Remuneration Committee consisting of three non-executive directors (Davide Galante, Lidia Florean and Dario Treves).
- An Investor Relations structure operates under the responsibility of the Chairman. It is run by a manager and its role includes the maintenance of relations with institutional investors. It also ensures that requirements regarding the communication to the market of price sensitive

information are met in accordance with existing regulations. It pays attention to problems regarding the symmetrical distribution of information.

For and on behalf of the Board of Directors

The Chairman  
Abramo Galante