



DIGITAL BROS FINANCIAL STATEMENTS 2002



CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2002



CONSOLIDATED INCOME STATEMENT:	30/06/02	31/12/01	30/06/01 Proforma
A) Value of production			
1) revenues from sales and services	21,465	42,037	14,181
2) change in working – in progress, semi-finished and finished goods	861	3,306	4,322
5) other revenues and income			
a) other revenues	317	927	229
Total value of production	22,643	46,270	18,732
B) Production costs			
6) raw, ancillary, consumable materials and goods for resale	15,180	24,157	13,403
7) services	4,988	15,909	4,928
8) use of third party assets / leases and rentals	402	1,052	483
9) personnel costs:			
a) wages and salary	1,418	4,027	1,545
b) social contributions	463	1,009	462
c) employee termination indemnity provision	98	186	73
e) other costs	0	0	2
10) amortisation, depreciation and writedowns			
a) amortisation of intangible assets	721	4,329	608
b) depreciation of tangible fixed assets	126	365	130
c) other fixed assets writedowns	0	236	0
d) writedowns of current receivables and of cash and bank balances	2	29	0
12) provisions for risks	175	0	0
14) sundry operation charges	394	563	283
Total production cost (B)	23,967	51,864	21,917
Difference between value of productions and productions costs (A-B)	(1,325)	(5,594)	(3,185)
C) Financial income and (charges)			
16) other financial income			
c) from securities classified other currents asstes other than equity investments	29	12	10
e) other income	25	797	810
17) interest and other financial charges			
e) others interest and financial charges	(829)	(2,313)	(1,227)
Total financial income and (charges)	(775)	(1,504)	(407)
E) Extraordinary income and charges			
20) income			
b) other income	106	354	90
21) charges			
c) other charges	(733)	(10,980)	(586)
Total extraordinary income / (charges)	(627)	(10,626)	(496)
Loss before taxation (A-B+C+-E)	(2,726)	(17,724)	(4,088)
22) Taxation on income for the year			
Current	(99)	(43)	0
26) Profit (loss) for the year	(2,825)	(17,767)	(4,088)

	30/06/02	31/12/01
A. Opening net cash position	(10.940)	1.101
B. Cash flow from operating activities		
Net profit (loss) for the period	(2.825)	(17.767)
Amortisation of intangible assets	721	4.565
Depreciation of tangible fixed assets	126	366
Net change in other provisions	175	(463)
Net change in employee termination indemnity provision	58	96
SUB TOTAL B	(1.745)	(13.203)
C. Change in net working capital		
Inventory	(915)	(3.233)
Trade receivables	3.906	12.099
Other current receivables	(3.042)	4.819
Prepayments and accrued income	116	573
Trade payables	(1.616)	(6.297)
Other payables	(294)	(1.233)
Deferred income	(72)	236
SUB TOTAL C	(1.918)	6.963
D. Cash flow from investment activities		
Investments in intangible assets	2.194	(5.648)
Investments in tangible fixed assets	(62)	(261)
Investments in financial fixed assets	79	(240)
SUB TOTAL D	2.211	(6.149)
E. Cash flow from financial activities		
Share capital increases	3.546	0
SUB TOTAL E	3.546	0
F. Movements on consolidated shareholders' equity		
Increases (Decreases) in shareholders' equity pertaining to minority interests	171	(140)
Increases (Decreases) in translation reserve	0	(99)
Increases (Decreases) in other shareholders' equity items	(3.761)	587
SUB TOTAL F	(3.590)	349
G. Cash flow for the year (B+C+D+E+F)	(1.495)	(12.040)
H. Closing net cash position (A+G)	(12.436)	(10.940)

Foreword

The Digital Bros S.p.A. consolidated financial statements at June 30, 2002 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.

A General Meeting held on April 19, 2002 approved a change to the Company by-laws in order to move the Company's accounting year-end from December 31 to June 30 each year. As a result, the current financial statements relate to a six-month period only, from January 1, 2002 to June 30, 2002. The Explanatory Notes and the attached Directors' Report on Operations relate to this period.

In order to make it easier to understand balance sheet items and, especially, income statement performance, pro-forma consolidated financial statements at June 30, 2001 are provided.

Business activities

The Company sells and distributes 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 as well as about the different areas in which the Company operates, significant events after the accounting year end, relations with subsidiary and associated companies and with related parties.

Preparation method

The financial statements are in accordance with the requirements of 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 June 30, 2002, the consolidation area included the following companies:

NAME	HEAD OFFICE	CURRENCY	SHARE CAPITAL	% INTEREST HELD	CONSOLIDATION METHOD
Digital Bros S.p.A.	Milan	Euro	5,160,000	Parent company	Line-by-line
Game Network On line S.r.l.	Milan	Euro	84,000	100	Line-by-line
Game Network S.p.A.	Milan	Euro	1,000,000	100	Line-by-line
Game Network Ltd.	London	GBP	1	100	Line-by-line
AD1 S.r.l. (1)	Milan	Euro	10,000	100	Line-by-line

(1) This is an indirect investment 100% owned by Game Network S.p.A.

Game Channel S.p.A., Evolution Entertainment S.r.l. and Communications & Promotions S.r.l. were merged with the parent company Digital Bros S.p.A. on February 26, 2002 with effect for tax and accounting purposes from January 1, 2002. Accordingly, these companies are not shown separately as belonging to the consolidation area.

The two English companies Twine Holding Ltd. and Eon Digital Entertainment Ltd. were still subsidiaries at the period end but they have been excluded from the consolidation area because they have both gone into voluntary liquidation.

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 (translation reserve).

In preparing the consolidated financial statements at June 30, 2002, 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 have 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.

Consolidated financial statements at December 31, 2001

The preparation method and consolidation method were consistent with those described above.

It should be noted that the consolidation area has not changed so the consolidated financial statements at December 31, 2001 are those approved by the shareholders' general meeting of April 19, 2002.

Pro-forma consolidated financial statements at June 30, 2001

In order to provide a better understanding of the economic and financial performance, pro-forma consolidated financial statements at June 30, 2001 have been prepared.

The preparation method and consolidation method used are consistent with those used in preparing the consolidated financial statements at June 30, 2002. They were prepared excluding from the consolidation area the assets, liabilities, costs and revenues relating to the two English companies excluded from the consolidation area at June 30, 2002. The various Group companies' assets and liabilities towards the two English subsidiaries have been shown as receivables due from/payables due to subsidiary or associated companies. Costs and revenues of Group companies resulting from dealings with the English companies were not eliminated during the consolidation process.

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. The amortisation rates applied have not changed compared to prior years. The amortisation charge for the period was calculated by applying the annual rate to the six-month period.

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 is amortised on a straight-line basis over ten years.

Tangible fixed assets

Tangible fixed assets are recorded at purchase cost and adjusted by means of accumulated depreciation. The depreciation rates applied are the same as in prior years. The depreciation charge for the period was calculated by applying the annual rate to the six-month period.

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 current value at year end. This method was modified during the year in order to bring into closer into line with accounting standards. The effect of the change was to reduce pre-tax loss by around Euro 31 thousand.

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 reported 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.

Costs and revenues

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 relate to transactions not forming 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 EURO THOUSANDS	SHAREHOLDERS' EQUITY	LOSS FOR YEAR
Shareholders' equity and net loss reported in the financial statements of the parent company	25,450	(1,486)
<i>Elimination of book value of equity investments:</i>		
Negative difference between book value and pro quota net equity of subsidiaries	(1,775)	0
Differences in profit reserves as a result of prior year results	(3,299)	0
- consolidation difference	581	
- results reported by subsidiaries	(1,400)	(1,400)
<i>Elimination of effects of transactions between subsidiary companies:</i>		
- amortisation of consolidation difference	0	(29)
Amortisation of goodwill on transfers between subsidiary companies	0	90
Change in translation reserve	171	0
Shareholders' equity and loss for the year - Group	19,728	(2,825)

Information about the balance sheet

Intangible assets

At year end, intangible assets were analysed as follows:

EURO THOUSANDS	30.06.2002	31.12.2001
Start-up and expansion costs	2,711	3,204
Concessions, licences, trademarks and similar rights	2,214	10,634
Goodwill	616	31
Consolidation difference	552	1,198
Assets in progress and payments on account	80	31
Other	165	135
Accumulated amortisation – licences	0	(5,980)
Total intangible assets - net	6,338	9,253

The main movements on the single balances in the six months ended June 30, 2002 were as follows:

EURO THOUSANDS	START-UP AND EXPANSION COSTS	CONCESSIONS, LICENCES	GOODWILL	CONSOLIDATION DIFFERENCE	ASSETS IN PROGRESS	OTHER	TOTAL
Balance at 31.12.2001	3,204	4,654	31	1,198	31	135	9,253
Increases during period	44	421	0	0	66	56	587
Decreases during period	0	(2,764)	0	0	(17)	0	(2,781)
Reclassification	0	(17)	617	(617)	0	17	0
Amortisation	(536)	(80)	(32)	(29)	0	(44)	(721)
Balance at 30.06.2002	2,711	2,214	616	552	80	165	6,338

The decrease in "Licences" follows the exclusion of English subsidiaries EON Ltd and Twine Ltd from the consolidation area. The Euro 421 thousand increase in licences entirely relates to the purchase of the licence to the on line game Myth of Soma.

The year-end consolidation difference of Euro 552 thousand represents the difference between the purchase cost of the English subsidiary Game Network Ltd and the related net equity at the acquisition date.

As a result of the merger of Game Channel S.p.A. with Digital Bros S.p.A., the consolidation difference of Euro 617 thousand reported in the consolidated financial statements at December 31, 2001 and resulting from the difference between the acquisition cost of the investment and the related net equity at the acquisition date has been reclassified to goodwill.

Tangible fixed assets

Tangible fixed assets at June 30, 2002 were analysed as follows:

EURO THOUSANDS	30.06.02	31.12.01
Land and buildings	553	553
Plant and machinery	98	100
Industrial and commercial equipment	1,386	1,429
Other tangible fixed assets	30	21
Total tangible fixed assets	2,067	2,103

At the period end, accumulated depreciation was as follows:

EURO THOUSANDS	30.06.02	31.12.01
Land and buildings	72	68
Plant and machinery	82	80
Industrial and commercial equipment	631	614
Other tangible fixed assets	21	16
Total accumulated depreciation	806	778

Movements on tangible fixed assets were as follows:

MIGLIAIA DI EURO	LAND AND BUILDINGS	PLANT AND MACHINERY	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER FIXED ASSETS	TOTAL
Balance at 31.12.2001	485	20	815	5	1,325
Increases during period	3	0	62	8	73
Decreases during period	0	(4)	(7)	0	(11)
Utilisation of accumulated depreciation	0	0	0	0	0
Depreciation charge for year	(7)	0	(115)	(4)	(126)
Balance at 30.06.2002	481	16	755	9	1,261

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

Financial fixed assets

Financial fixed assets amount to Euro 9 thousand compared to Euro 4 thousand at the end of 2001. The Euro 5 thousand increase is the result of Euro 3 thousand of additional guarantee deposits and to the exclusion of English subsidiaries Twin Holdings Ltd and Eon Digital Entertainment Ltd from the consolidation area (Euro 2 thousand).

Provisions for risks and charges

"Provisions for risks and charges" include the accrual to the tax provision made in relation to the findings of the tax authorities with regard to the year ended December 31, 1998. The amount of the tax provision was determined based on the estimated amount of the tax liability to be assessed. It amounts to Euro 175 thousand and was entirely provided during the period.

Employee termination indemnity provision

Movements on this provision may be analysed as follows:

EURO THOUSANDS	30.06.02
Provision at December 31, 2001	334
Payments to leavers	(40)
Accrued for the period	98
Employee termination indemnity provision at June 30, 2002	392

Changes in the provision related to amounts paid out to staff leaving the Company and to the provision for the period under applicable legislation.

Long-term receivables

Long-term receivables may be analysed as follows:

EURO THOUSANDS	30.06.02
Due from tax authorities	4
Deferred tax assets – IRPEG	100
Due from publishers	115
Receivables due after more than a year	219

Long-term payables may be analysed as follows:

EURO THOUSANDS	30.06.02
Long-term loans	92
Payables due after more than a year	92

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 June 30, 2002, prepayments were analysed as follows:

EURO THOUSANDS	30.06.2002	31.12.2001
Telephone charges	3	4
Satellite link costs	95	84
Leasing costs	54	68
Insurance	36	15
Contract costs	30	49
Maintenance costs	13	3
Licence costs	0	102
Other prepayments	0	8
Total prepayments	0	333
Other accrued income	0	14
Total prepayments and accrued income	231	347

Accrued expenses and deferred income

The total period end balance of Euro 185 thousand, Euro 72 thousand lower than the balance of Euro 257 thousand at December 31, 2001, consisted of accrued agents' commission.

There was no deferred income.

Memorandum accounts

Memorandum accounts may be analysed as follows:

EURO THOUSANDS	30.06.2002	31.12.2001
Sureties issued to third parties	276	46
Mortgages issued to third parties	775	775
Finance lease commitments	611	699
Total	1,662	1,520

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:

EURO THOUSANDS	30.06.02
Internet servers	91
Equipment	484
Other	36
Total	611

Financial income and charges

FINANCIAL INCOME

Financial income may be analysed as follows:

EURO THOUSANDS	30.06.02
Interest on securities	29
Bank interest income	25
Total financial income	54

Financial charges may be analysed as follows:

EURO THOUSANDS	30.06.02
Bank interest and charges	600
Factoring interest and charges	96
Other interest payable	58
Exchange losses	75
Total financial charges	829

Extraordinary income and charges

Extraordinary income may be analysed as follows:

EURO THOUSANDS	30.06.02
Non-existent liabilities	76
Other unaccrued prior year income	10
Over accrual of costs	20
Total extraordinary income	106

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

Extraordinary charges may be analysed as follows:

EURO THOUSANDS	30.06.02
Adjustment to prior year revenues	694
Non-existent receivables	39
Total extraordinary charges	733

Extraordinary charges essentially relate to the return by clients of products totalling Euro 690 thousand sold during the previous year.

Shareholders' equity

Movements on shareholders' equity during the year are set out in the following table:

EURO THOUSANDS	31.12.2001	ALLOCATI ON OF LOSS	TRANSLATION DIFFERENCE	OTHER MOVEMENTS	SHARE CAPITAL INCREASE	LOSS FOR PERIOD ENDED JUNE 30, 2002	30.06.2002
Share capital	1,625				3,535		5,160
Share premium reserve	39,666				(3,483)		36,183
Legal reserve	258						258
Retained earnings / (accumulated losses)	(1,034)	(17,767)		(267)			(19,068)
Translation reserve	(151)		171				20
Loss for the period	(17,767)	17,767				(2,825)	(2,825)
Total shareholders' equity – Group	22,597	0	171	(267)	52	(2,825)	19,728
Capital and reserves – minority interests							
Profit (Loss) – minority interests							
Total consolidated shareholders' equity	22,597	0	171	(267)	52		19,729

At June 30, 2002, wholly subscribed and paid up share capital amounted to Euro 5,160,000 and consisted of 12,900,000 shares with a nominal value of Euro 0.40 each.

Operations involving shares and shareholders' equity in the period ended June 30, 2002 may be summarised as follows:

- On February 26, 2002, an Extraordinary General Meeting approved a paid share capital increase of Euro 52,000 involving the issue of 400,000 new shares with a par value of Euro 0.13 each to the minority shareholder, holding a 33% interest, of Game Channel S.p.A., a company absorbed by Digital Bros S.p.A.;
- On April 19, 2002, an Extraordinary General Meeting approved a free share capital increase of Euro 3,483,000 by allocating that amount from the Share Premium Reserve to Share Capital and increasing the par value of each share from Euro 0.13 to Euro 0.40.

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

Employees

During the period ended June 30, 2002, the average number of employees (i.e. the average of month end employee numbers) and the number of employees at period end was as follows:

CATEGORY	AVERAGE NO OF EMPLOYEES	PERIOD END NO OF EMPLOYEES
Managers	5	4
Office workers	76	79
Manual workers and apprentices	5	4
Total	86	87

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.

NAME	POSITION	PERIOD OF OFFICE IN 2002	EMOLUMENTS	OTHER EMOLUMENTS (1)	OTHER EMOLUMENTS (2)
Board of Directors					
Abramo Galante	Chairman and Managing Director	From 01.01.2002 to 30.06.2002	90,151	0	0
Raffaele Galante	Managing Director	From 01.01.2002 to 30.06.2002	90,742	0	0
Lidia Florean	Director	From 01.01.2002 to 30.06.2002	40,694	0	0
John Burns	Director	From 01.01.2002 to 16.01.2002	0	0	395,498
Davide Galante	Director	From 01.01.2002 to 30.06.2002	0	0	0
Sem Bruno Moioli	Director	From 01.01.2001 to 30.06.2002	0	72,350	0
Bruno Soresina	Director	From 01.01.2002 to 30.06.2002	24,270	0	0
Dario Treves	Director	From 01.01.2002 to 30.06.2002	0	28,352	0
Sergio Treves	Director	From 01.01.2002 to 30.06.2002	0	0	0
Board of Statutory Auditors					
Franco Gaslini	Chairman	From 01.01.2002 to 30.06.2002	0	0	0
Franco Tarantola	Statutory Auditor	From 01.01.2002 to 30.06.2002	0	0	0
Piergiorgio Picozzi	Statutory Auditor	From 01.01.2002 to 30.06.2002	0	0	0
Pietro Ottone	Substitute Statutory Auditor	From 01.01.2002 to 30.06.2002	0	0	0
Maurizio Picciotto	Substitute Statutory Auditor	From 01.01.2002 to 30.06.2002	0	0	0

(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 PERIOD						SHARES ALLOTTED OR OPTIONS EXERCISED DURING THE PERIOD		
Shares allotted without payment		Purchase or subscription option rights				Shares allotted without payment		Purchase or subscription option rights
SURNAME AND NAME	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
Florean Lidia	0		7,500	16 €	(1)	0	0	0
Burns John	0		15,000	16 €	(1)	0	0	0
Moioli Sem	0		15,000	16 €	(1)	0	0	0
Soresina Bruno	0		3,500	16 €	(1)	0	0	0
Treves Dario	0		7,500	16 €	(1)	0	0	0
Treves Sergio	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.

Investments held by directors and statutory auditors

NAME AND SURNAME	COMPANY IN WHICH INVESTMENT IS HELD	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	65,000	(95,000)	253,728
John Burns (1)	Twine Ltd.	33,25%	0	0	33,25%
Sem Moioli	Game Channel S.p.A.	165,000	0	165,000	0
Sem Moioli (2)	Digital Bros S.p.A.	0	400,000	0	400,000

(1) Director until January 16, 2002

(2) The result of the absorption of Game Channel S.p.A. by Digital Bros S.p.A. as approved by Extraordinary General Meeting of February 26, 2002.

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 period.

For and on behalf of the Board of Directors
The Chairman
(Abramo Galante)

During the six months from January 1, 2002 to June 30, 2002, the Group assumed its current form with the completion of the restructuring process of equity investments that began last year. On February 26, 2002, wholly owned subsidiaries Evolution Entertainment S.r.l. and Communications & Promotions S.r.l. were absorbed by the parent company as was 67% owned subsidiary Game Channel S.p.A.; this took place with effect from January 1, 2002. The remaining equity investments were not subject to purchases, subscriptions and/or disposals with the result that the period end situation may be analysed as follows:

Company acquired 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
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.	100%	0%	0%	100%
Game Network S.p.A.	100%	0%	0%	100%
Ad1 S.r.l. (2)	100%	0%	0%	100%

(1) Investment owned indirectly through subsidiary Twine Holdings Ltd.

(2) Investment held indirectly through subsidiary Game Network S.p.A.

At June 30, 2002, the subsidiary companies were as follows:

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.

Game Network S.p.A. - broadcasts and produces digital television programmes.
Game Network Ltd. - broadcasts and produces digital television programmes for the UK market.

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. and Eon Digital Entertainment Ltd – are involved in international publishing activities. The share capital is 100% owned by Twine Holdings Ltd. The two English companies have now gone into voluntary liquidation and have, therefore, been excluded from the consolidation area.

The Group's business activities

Distribution and co-publishing of video games in Italy

The main activities of the Digital Bros Group are carried out by parent company Digital Bros S.p.A. They consist of 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

Since 2001 the Group has involved in international video game publishing through its two English 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 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. This activity will

be launched again during the first half of the next financial year and will be carried out by the Digital Bros department which handled licences held for Italy only. The English companies which conducted this business in prior years have been placed into voluntary liquidation and excluded from the consolidation area.

Digital Theme TV

Through its subsidiaries 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.

During the six months ended June 30, 2002, an agreement was signed with UK company Celcast which enables viewers to interact with other viewers by sending "SMS" messages which are shown live on screen. This technological partnership represents the first step towards a genuine interactive digital TV channel.

AD1 S.r.l. 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 the first half of 2002, 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

This business enables PC owner gamers to connect to one of the Group's servers and play on-line with other gamers connected to the same server. The Group currently has exclusive rights in Europe to two games, "Legend of Mir" and "Myth of Soma", two MMORPG (Massive Multiplayer Online Role Playing Games). These are role playing games where the player selects a character which lives in a virtual world and interacts with other players in the same virtual world.

This is a subscription service and payment is possible by several methods: prepaid cards, credit card and purchase of the video game in a store including a prepaid period. The system used to manage this high number of small payments was developed in-house and can also be used for the Group's e-commerce and for tele-sales made through the Game Network TV channel.

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 for the six months ended June 30, 2002 amounted to Euro 21,465 thousand, 51% more than the Euro 14,181 thousand reported in the pro-forma consolidated income statement for the first six months of 2001.

The consolidated net loss of Euro 2,825 thousand compares with a pro-forma consolidated loss for the first six months of 2001 of Euro 4,088 thousand, an improvement of Euro 1,263 thousand.

The parent company's loss of Euro 1,485 thousand was entirely due to the fact that the period was only six months long and should be considered in the light to the seasonal trends that traditionally affect the video games sector. The Company generates much of its turnover in the final quarter of the calendar year as consumers are readier to make purchases in the winter months and, especially, in the run up to Christmas. Also, publishers tend to launch well-known, highly successful games in that period.

The additional losses almost entirely related to the two subsidiaries operating in the digital theme TV sector, Game Network S.p.A. and Game Network Ltd, which generated losses totalling Euro 1,299 thousand.

Analysis of revenues

As in the previous year, revenues were largely generated by the distribution of video games in Italy under the Halifax label. The revenues generated may be analysed as follows:

EURO THOUSANDS	30.06.02	31.12.01	30.06.01	DIFFERENCE 2002/2001	%
Distribution of video games for consoles	16,987	27,602	10,056	6,931	69%
Distribution of video games for PC	1,632	6,101	2,735	(1,103)	-40%
Distribution of accessories	1,891	222	51	1,840	n.s.
Total distribution revenues – Italy	20,510	33,925	12,842	7,668	60%
International video game publishing	0	6,050	0	0	n.s.
Digital TV	321	169	24	297	n.s.
On line gaming revenues	421	329	0	421	n.s.
Advertising revenues	195	277	100	95	95%
Revenues from exchange of goods	13	1,215	1,215	(1,202)	n.s.
Other products and services	5	72	0	5	n.s.
Total revenues from sales	21,465	42,037	14,181	7,284	51%

Revenues increased by 51% in the first half of 2002 compared to the same period in 2001. This was due, in particular, to a 60% increase in revenues from the distribution of products in Italy.

If we set aside revenues from the exchange of goods which amounted to Euro 1,215 thousand in the first half of 2001 and to only Euro 13 thousand in the first half of 2002, the increase in consolidated revenues in the first half of 2002 over pro-forma consolidated revenues in the first half of 2001 is 65%, an increase from Euro 12,966 thousand in 2001 to Euro 21,452 thousand in 2002.

Revenues from the distribution of video games for consoles

The phase of stagnation that the market went through in the previous two years now appears to have been left behind. The first half of 2002 saw Microsoft and Nintendo launch two new gaming platforms/consoles, the Microsoft Xbox and the Nintendo GameCube, respectively. The launch of these products completes the phase of transition from 64 bit to 128 bit consoles.

The entry of new competitors onto the market (Microsoft) and the launch of a new console by one of the best established players (Nintendo) resulted in a "console war" with hardware prices falling below previously announced levels right from the launch date and further reductions expected in the near future. The price war in the hardware sector means that these consoles penetrate a larger number of families and the larger user base has, as a direct result, an increase in software units sold. The initial signs are already apparent. Indeed, the Company's revenues from the distribution of video games for consoles in Italy increased by 69% from Euro 10,056 thousand in the first half of 2001 to Euro 16,987 thousand in the first half of 2002.

Digital Bros' main activity is the distribution of video games for consoles and it will benefit from the healthy state of this sector of the market in the second half of 2002, as well.

In order to provide an understanding of future developments and of what has happened so far, it is interesting to compare sales by console type in the six months ended June 30, 2002 with similar figures for the entire year ended December 31, 2001, together with average selling prices in each period.

EURO THOUSANDS	30.06.02		31.12.01		% WEIGHT	
	UNITS	TURNOVER	UNITS	TURNOVER	2002	2001
Sega Dreamcast	1,146	6	9,145	188	0%	1%
Nintendo Gameboy	29,582	552	146,824	2,584	3%	9%
Nintendo Gameboy Advance	23,687	884	53,781	1,962	5%	7%
Nintendo 64	0	0	40,045	293	0%	1%
Sony Playstation	122,666	1,783	502,926	9,280	11%	34%
Sony Playstation 2	284,655	11,951	346,609	13,294	70%	48%
Game Cube	25,548	1,117	0	0	7%	0%
X-Box	15,027	694	0	0	4%	0%
Total Distribution for Consoles	502,311	16,987	1,099,330	27,601	100%	100%

AMOUNTS IN EURO	30.06.02	31.12.01	DIFFERENCE
	AVERAGE PRICE	AVERAGE PRICE	%
Nintendo Gameboy	18.7	17.6	6%
Nintendo Gameboy Advance	37.3	36.5	2%
Sony Playstation	14.5	18.5	-22%
Sony Playstation 2	42	38.4	9%
Game Cube	43.7	0	n.s.
X-box	46.2	0	n.s.
Total Distribution for Consoles	33.8	25.1	35%

The launch of the new Microsoft Xbox and Nintendo GameCube platforms did not have a major impact on total sales revenues for the first half of 2002. Sales of products for these consoles represented 11% of the total – 7% for GameCube software and 4% for Xbox software.

Microsoft only launched the Xbox in March while Nintendo's GameCube was launched in May. As a result, they will represent more than 10% of total sales revenues in the first six months of the financial year ending June 30, 2003. During the six months ended June 30, 2002, the most significant source of revenues was the sale of video games for the Sony Playstation2 console which represented 70% of total revenues from the distribution of products for consoles and 56% of total consolidated sales revenues. Despite the aforementioned seasonal factors, it should be noted that the 284,655 units were sold in the first half of 2002, 82% of the total units sold throughout the whole of 2001.

The success of the Playstation 2 – it is thought that more than 500,000 of these consoles are now in use in Italy – together with the launch of games developed specifically for it e.g. "Metal Gear Solid 2" distributed by Digital Bros in the first half of 2002 has enabled an increase in average selling price from Euro 38.4 in 2001 to Euro 42 in the first half of 2002.

The Nintendo GameBoy Advance handheld console continues to penetrate the market in a linear manner, typical of the life cycle enjoyed by its predecessor the Game Boy Color which was much longer than the life cycle of gaming platforms that require to be attached to a TV. The percentage weight of revenues from sales of software for this platform fell from 7% in 2001 to 5% in the first half of 2002. This was largely the result of the success of the Playstation 2 rather than of a slowdown in sales of products for the GameBoy Advance. In actual fact, the number of software units sold in the first half of 2002 was almost 50% of the total number of units sold in the whole of 2001. Bearing in mind the peak pre-Christmas period, it is reasonable to expect a clear increase in the number of units sold in this sector in 2002 as a whole.

The first half of 2002 saw the gradual slowdown of sales of software for the two consoles that led the market in its previous cycle from 1997 to 2001, the Sony Playstation and the Nintendo GameBoy Color. Compared to the year ended December 31, 2001, as a percentage of total sales revenues, sales of software for these consoles fell from 34% to 11% and from 9% to 3%, respectively.

Revenues from distribution of products for PC

The first half of 2002 saw sales in this sector fall by 40% compared to the same period in 2001 from Euro 2,735 thousand to Euro 1,632 thousand. The decrease is due to the fact that the sector has reached maturity and has recorded negative growth for several years now. The cannibalisation of software for the new consoles should also be borne in mind. This has led to a gradual improvement in gaming performance.

Revenues from the sale of accessories and hardware

The strong growth in this area is due to the sub-distribution agreement in Italy signed by Digital Bros and Nintendo Europe. Historically, the Company had never been involved to a significant extent in the hardware sales area for strategic reasons. The distribution agreement for the Nintendo GameCube and other consoles together with Nintendo software offers the Group the chance to increase market penetration through hardware and software sales but also gives it a presence in the toy retail distribution channel which has traditionally been more closely associated with Nintendo.

Other revenues from sales and services

Revenues from activities other than the distribution of products in Italy represented 4% of total consolidated revenues in the first half of 2002.

Revenues from the international publishing of video games amounted to zero during the period. They were also eliminated from the previous period following the exclusion of the UK subsidiaries from the consolidation area. Digital TV revenues almost doubled in the first half of 2002 compared to the full twelve months of 2001 – they increased from Euro 169 thousand in 2001 to Euro 321 thousand in the first half of 2002. The bulk of revenues in this sector relates to prize competitions organised by UK subsidiary Game Network Ltd. The first half of the year did not benefit – except to a minor degree – from the agreement signed in May 2002 with Cellcast for the broadcasting of SMS messages. This agreement will eventually provide guaranteed minimum annual revenues of Euro 540 thousand.

In the first half of 2002, revenues from on-line gaming activities amounted to Euro 421 thousand. This sector was affected by the delay with which "Myth of Soma" – the second game that Digital Bros has exclusive rights to for the European market – entered the commercial phase. The game has only been on sale since April. "Legend of Mir" was launched commercially in September 2001 and it generated Euro 285 thousand of revenues in the first half of 2002. It will provide an even more significant contribution towards consolidated turnover following the market launch of the new release of the game.

The most significant change in other revenue items relates to the decrease in revenues from the exchange of goods: these revenues decreased from Euro 1,215 thousand in the first half of 2001 to Euro 13 thousand in the first half of 2002. The revenues recorded in the first half of 2001 related to a contract agreed with the previous advertising agent and were of little interest to the Group as they did not generate significant margins.

Geographical analysis of revenues

Revenues may be analysed by geographical area as follows:

EURO THOUSANDS	30.06.02
Revenues in Italy	20,750
Revenues outside Italy	715
Total Revenues	21,465

Revenues outside Italy were generated by UK subsidiary Game Network Ltd in relation to the prize competitions organised and by Game Network on Line S.r.l. through the sale of subscriptions to on-line games.

Analysis of costs

PURCHASES OF RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS FOR RESALE

As the revenues trend shows, the Digital Bros' main activities during the period 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 information about purchases, showing them as a percentage of revenues from publishing and distribution activities together with comparatives for 2001:

EURO THOUSANDS	30.06.02		31.12.01	
Distribution of video games in Italy	20,510		33,925	
International video game publishing	0		6,050	
Total revenues from sale of video games (a)	20,510	100%	39,975	100%
Purchases	(15,180)		(24,157)	
Change in Inventory	861		3,306	
Total cost of goods sold (b)	(14,319)	-70%	(20,851)	-52%
Value Added (a)-(b)	6,191	30%	19,124	48%

The significant decrease in Value Added as a percentage of total revenues is due to two factors:

- the extraordinary policy in relation to the return of goods adopted in 2001 involved the recording of related losses under extraordinary charges while related gains were recorded under changes in inventory and had a significant impact on Value Added.
- The publishing activities performed by the Group in 2001 generated much higher margins at value added level than those generated by the distribution of video games in Italy which generate a value added percentage of around 30% on average.

SERVICES

EURO THOUSANDS	30.06.2002	31.12.2001	30.06.01	DIFFERENCE	%
Advertising, marketing, trade fairs and exhibitions	734	5,833	1,655	(921)	-56%
Commission and incidental charges	425	806	374	51	14%
Transport and freight costs	340	380	294	46	16%
Distribution costs	99	209	42	57	136%
Insurance	64	181	75	(11)	-15%
Professional advisors, freelance staff, lawyers and notaries	190	1,346	540	(350)	-65%
Postage and telephone	109	1,163	194	(85)	-44%
Travel and subsistence costs	82	930	221	(139)	-63%
Entertainment	19	44	16	3	
Sundry utilities	17	59	24	(7)	
Temporary staff costs	82	175	40	42	
Maintenance costs	73	144	71	2	
Directors' fees	341	703	374	(33)	-9%
Statutory auditors' fees	26	58	25	1	
Other general and administrative costs	579	269	322	257	65%
Services sub-total	3,180	12,300	4,267	(1,087)	-26%
Satellite link	835	1,356	540	295	55%
Television programmes	0	218	121	(121)	
Licences	974	2,036	0	(974)	
Total cost of services	4,989	15,910	4,928	61	1%

In order to compare total service costs with those recorded in the first half of 2001, we had to calculate a sub-total of service costs which excludes:

- licences which, in the first half of 2001, were included under "purchases of raw materials, etc." whereas they were, more appropriately, classified under service costs with effect from the financial statements for the year ended December 31, 2001.
- the cost of the satellite link as this is not suitable for comparison given that the first half of 2001 benefits from the fact that the second satellite link with Astra only came into operation with effect from April 2001
- television programmes which were not purchased in 2002.

Following the above reclassifications, consolidated service costs decreased by Euro 1,097 thousand from Euro 4,267 thousand in the first half of 2001 to Euro 3,180 thousand in the first half of 2002, a reduction of 26%.

The decrease was largely due to the cost cutting measures introduced by management with effect from September 2001 and is especially clear in several areas such as advertising and marketing costs which decreased by Euro 921 thousand (-56% compared to the first six months of 2001); this is countered by increases of Euro 257 thousand in "Other general and administrative costs", Euro 350 thousand in "Consultancy and external staff costs" (-65% compared to the first half of 2001) and Euro 139 thousand in travel and subsistence costs (-63% compared to the first six months of 2001).

Meanwhile, there were natural increases in those service costs that are directly related to sales volumes such as commission and incidental charges, transport and freight costs and distribution costs. These three items increased by a total of Euro 154 thousand, representing a 22% increase which, compared with the 60% increase in revenues from distribution activities, shows that significant advantages were obtained in this area.

The increase in satellite link costs relates to the activities undertaken by subsidiary Game Network. The increase is due to the fact that the Astra satellite signal was used for a shorter period in the previous year.

The increase in "Licences" relates to the royalties paid to Disney Interactive under the co-publishing and distribution agreement signed by Digital Bros on October 1, 2000 and renewed in 2002. Unlike other Italian and international licences which are capitalised under intangible assets, licences under this contract have been charged directly to the income statement as the contract lasts for less than twelve months.

PERSONNEL COSTS

EURO THOUSANDS	30.06.2002	31.12.01	30.06.01	DIFFERENCE	%
Wages and salaries	1,418	4,027	1,545	(127)	-8%
Social contributions	463	1,009	462	1	0%
Employee termination indemnity	98	186	73	25	34%
Other	0	0	2	(2)	
Total personnel costs	1,979	5,222	2,082	(103)	-5%
Average number of employees	86	111	91	(5)	-5%
Average annual cost per employee	46	47	46	0	0%

The average annual cost per employee in the first half of 2002 was not significant different from that for the first half of 2001. The 5% reduction in total personnel costs is due to a decrease in the average number of Group employees.

ACCRUAL TO PROVISIONS FOR RISKS AND CHARGES

This amount has been provided by Digital Bros in respect of contingent tax liabilities.

INVESTMENTS AND WORKING CAPITAL

Changes in the video games market during the period, the important corporate operations that took place and investments in licences to publish video games all had a significant impact on the equity structure during the year.

INVESTMENTS

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

NET WORKING CAPITAL

In order to show the net working capital trend more clearly and explain the factors that have led to the significant decrease in net working capital, the following table compares balance sheet figures at June 30, 2002 with pro-forma consolidated balance sheet figures from last year:

EURO THOUSANDS	30.06.02	31.12.01	30.06.01	DIFFERENCE
Inventory	14,703	13,788	14,035	668
Trade receivables	16,947	20,853	23,247	(6,300)
Other receivables	330	1,003	3,933	(3,603)
Prepayments and accrued income	231	347	320	(89)
Trade payables	(8,354)	(9,968)	(9,833)	1,479
Other payables	(2,336)	(2,779)	(1,871)	(465)
Deferred income	(185)	(257)	(448)	263
Total Net Working Capital	21,336	22,987	29,383	(8,047)

Net working capital has fallen because current assets have decreased by more than current liabilities. The overall decrease in consolidated net working capital is the result of several factors:

- The stagnant state of the video games distribution market in Italy last year had a significant impact and led the Company to adopt an extraordinary policy regarding returns from certain customers. This policy has meant that trade receivables have decreased by Euro 6,300 thousand compared to June 30, 2001 despite a significant increase in sales revenues in the first half of 2002.

- The fall in other receivables is the result of a decrease in advances to suppliers and relates to the fees paid to Ing Barings at the time of the listing on the New Market which were still included under this heading at June 30, 2001.

Meanwhile:

- The decrease in trade payables related to the fact that the June 30, 2001 balance included amounts due to Ing Barings as described above.

Considering the above, any attempt to calculate average days sales or purchases outstanding would lead to a somewhat distorted result.

Net working capital is expected to increase as a result of the growth in Group revenues anticipated for the second half of 2002.

NET FINANCIAL POSITION

At June 30, 2002, the net financial position was negative by Euro 12,435 thousand. This was almost unchanged compared to the net financial position at the end of the first half of 2001.

EURO THOUSANDS	30.06.02	31.12.01	30.06.01	DIFFERENCE
Other securities	3,469	3,887	2,411	1,058
Bank and post office accounts	2,151	2,551	6,035	(3,884)
Due to other lenders	(1,015)	(12)	(12)	(1,003)
Cash on hand	16	8	11	5
Due to banks	(17,056)	(17,374)	(20,671)	3,615
Net financial position	(12,435)	(10,940)	(12,226)	(209)

SIGNIFICANT SUBSEQUENT EVENTS

On July 28, 2002, a bond loan of Euro 4 million convertible into Digital Bros ordinary shares was issued. The bond loan was entirely subscribed by Société Generale and provides for a minimum conversion price of Euro 3 per share; this figure shall be revised on a quarterly basis in relation to the market share price. The bond loan shall have a three year duration and is remunerated at a fixed rate of 6.5%.

BUSINESS OUTLOOK

The sales recovery seen in the first half of 2002 together with the positive market performance in July and August 2002 – traditionally the worst months in terms of sales revenues – plus the positive impact of the contract signed with Nintendo lead us to believe that, in line with the strategic plan approved by the Board of Directors on October 1, 2001, revenues in the distribution sector in 2002 will exceed Euro 60 million. This represents 100% growth on the period just ended.

With regard to profitability, the cost saving measures already taken as well as measures to reduce fixed costs by using outsourcing in order to bring down the break-even point will make the Income Statement structure more flexible. We believe that a net profit at EBIT level is a distinct possibility.

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 provisions 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 body 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 eight 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 Director, have executive powers

- The Chairman and the Managing Director 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 June 30, 2002, these relations were summarised as follows:

EURO THOUSANDS	RECEIVABLES	PAYABLES
Receivables/ (Payables) Eon/Twine	3,715	148
Receivables/ (Payables) Nopay	3,151	0

No costs or revenues regarding related parties were recorded during the period.

The only dealings between Group companies and related parties other than subsidiaries are regulated by the contracts signed in July 2000 by Digital Bros S.p.A. and Communications & Promotions S.r.l. (now absorbed by Digital Bros) on the one hand and Nopay S.r.l. on the other. The agreement provided that the Group companies billed Nopay S.r.l. costs incurred in respect of telephone traffic, the use of broad band, the use of equipment and the cost of personnel used in respect of the development and maintenance of the nopay.it web site. Nopay S.r.l. pays the Company the amount of costs incurred and documented plus 5%.

Research and development activities

The Group did not undertake any research and development activities.

Secondary Group Offices

During the period, the Group operated from the following offices:

Company	Location	Activities
Digital Bros S.p.A.	Via Bisceglie 71/73 Building B – Milan	Offices, workshops, warehouse
Game Network S.p.A.	Via Labus 15/3 – Milan	Offices, production
Ad1 S.r.l.	Via Labus 15/3 – Milan	Offices
Game Network on line S.r.l.	Via Bisceglie 71/73 Building B – Milan	Offices
Game Network Ltd.	66, Wigmore Street, London – United Kingdom	Offices

Equity investments held by directors and statutory auditors

Pursuant to CONSOB Resolution 11971/99 as subsequently modified, we set out below a list of the equity investments held by the directors. The statutory auditors do not hold any investments in the Company.

NAME AND SURNAME	COMPANY INVESTMENT HELD IN	NO OF SHARES HELD AT END OF PREVIOUS ACCOUNTING PERIOD	NO OF SHARES PURCHASED	NO OF SHARES SOLD	NO OF SHARES HELD AT END OF CURRENT ACCOUNTING PERIOD
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	65,000	(95,000)	253,728
John Burns (1)	Twine Ltd.	33.25%	0	0	33.25%
Sem Moioli	Game Channel S.p.A.	165,000		165,000	0
Sem Moioli (2)	Digital Bros S.p.A.	0	400,000	0	400,000

(1) Director until January 16, 2002

(2) Effect of absorption of Game Channel S.p.A. by Digital Bros S.p.A. as approved by Extraordinary General Meeting on February 26, 2002

For and on behalf of the Board of Directors
The Chairman
(Abramo Galante)

Foreword

A General Meeting held on April 19, 2002 approved a change to the Company by-laws in order to move the Company's accounting year-end from December 31 to June 30 each year. As a result, the current financial statements relate to a six-month period only, from January 1, 2002 to June 30, 2002. The Explanatory Notes and the attached Directors' Report on Operations relate to this period.

In order to make it easier to understand balance sheet items and, especially, income statement performance, information from the interim financial statements at June 30, 2001, as approved by the Board of Directors on August 29, 2001, is provided.

The financial statements at June 30, 2002 have been prepared in accordance with the requirements of Article 2423 et seq. of the Civil Code.

Business activities

The Company sells and distributes video games on the Italian market.

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 as well as about the different areas in which the Company operates, significant events after the accounting year end, relations with subsidiary and associated companies and with related parties.

Preparation method

The financial statements are in accordance with the requirements of 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 June 30, 2002 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.

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 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.

It is essential that valuation criteria are applied on a consistent basis from year to year in order to ensure that the financial statements of the company for different years may be compared with one another.

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.

Fixed assets

Intangible assets

Intangible assets apart from video game licences are recorded at historic purchase cost, including incidental charges, and are shown net of accumulated amortisation.

Video game licences are recorded at historic purchase cost, including incidental charges, and shown net of accumulated amortisation. Amortisation is calculated based on the actual use of the licence. The degree of use of the licence is determined based on the ratio of units produced to units sold during the period covered by the contract.

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 are amortised on a straight-line basis over a period of five years.

The merger deficit, recorded under "Goodwill" with the approval of the Board of Statutory Auditors, is being amortised over ten years.

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

Other intangible assets are amortised on a straight-line basis over five years.

Tangible fixed assets

Tangible fixed assets are recorded at purchase cost, including incidental charges, and adjusted by means of accumulated depreciation. They have never been revalued.

The depreciation charged to the income statement has been determined based on the utilisation and estimated life of the fixed assets. It has been calculated considering the remaining useful life of the assets using the following rates of depreciation. The rates shown below remain unchanged since the previous year and half of these rates is applied in the year in which an asset first comes into use:

- land and buildings:	3%
- 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 current value at year end. The valuation method was modified during the period in order to bring it into line with accounting standards. The effect of the change was to reduce pre-tax loss by around Euro 31 thousand.

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 recorded as intangible assets as that heading is considered 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.

Tax provision

The tax provision reflects probable tax liabilities whose amount or due date are uncertain. It includes liabilities relating to likely tax assessments or ongoing disputes as valued based on an estimate of the liability.

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 regard 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 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

AMOUNTS IN EURO	
Balance at June 30, 2002	5,565,590
Balance at December 31, 2001	4,855,825
Total Increase	709,765

Movements on Intangible Assets

EURO THOUSANDS	START-UP AND EXPANSION COSTS	GOODWILL	CONCESSIONS, LICENCES, TRADEMARKS & SIMILAR	OTHER	ASSETS IN PROGRESS	TOTAL INTANGIBLE ASSETS
Balance at December 31, 2001	3,185	0	1,563	88	19	4,856
Increases during period	32	1,429		4	66	1,531
Writedowns during period			(172)			(172)
Amortisation charge for period	(533)	(72)	(15)	(28)		(648)
Balance at June 30, 2002	2,684	1,357	1,376	64	85	5,566

The amortisation charged in respect of intangible assets relates to a six-month period. Half of annual amortisation rates have been applied.

"Start-up and expansion costs" have been capitalised with the approval of the Board of Statutory Auditors. They include costs capitalised in 2000 in relation to the Company's quotation on the New Market regulated by the Italian Stock Exchange. The increase for the period consists of notary fees regarding extraordinary operations as follows: 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. and costs incurred in relation to a free share capital increase effected by increasing the nominal value per share from Euro 0.13 to Euro 0.40 as approved by an Extraordinary General Meeting of April 19, 2002.

"Goodwill" consists of a merger deficit resulting from the aforementioned merger by incorporation that took place on February 26, 2002.

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 ratio between units produced and units sold during the contractually agreed period.

"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.

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

II. Tangible fixed assets

AMOUNTS IN EURO	
Tangible Fixed Assets at June 30, 2002	925,877
Tangible Fixed Assets at December 31, 2001	927,991
Total Decrease	(2,114)

Movements during the year on tangible fixed assets are shown below:

EURO THOUSANDS	LAND AND BUILDINGS	PLANT AND MACHINERY	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER FIXED ASSETS	TOTAL
Balance at December 31, 2001	553	87	867	21	1,528
Increases during period			76	1	77
Decreases		(2)			(2)
Balance at June 30, 2002	553	85	943	22	1,603

Changes in accumulated depreciation are shown below:

EURO THOUSANDS	LAND AND BUILDINGS	PLANT AND MACHINERY	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER FIXED ASSETS	TOTAL
Balance at December 31, 2001	65	76	443	16	600
Depreciation	7	2	66	2	77
Disposals and write-offs		(1)			(1)
Balance at June 30, 2002	72	78	509	18	677

The increase for the period relates to investments in industrial and commercial equipment. Specifically, the Company acquired servers to improve its Internet connectivity and office automation equipment as part of routine replacement 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. The depreciation charge for the six-month period was determined by applying half of the respective annual depreciation rates.

III. Financial fixed assets

AMOUNTS IN EURO	
Balance at June 30, 2002	2,642,696
Balance at December 31, 2001	2,111,318
Total Increase	531,378

The balance includes guarantee deposits totalling Euro 3 thousand. The remaining Euro 2,640 thousand consists of equity investments in subsidiary companies. Equity investments in subsidiary companies may be analysed as follows:

THOUSANDS OF EURO	30.06.02
Game Network On Line S.r.l.	500
Twine Holdings Ltd.	2
Game Network S.p.A.	1,820
Game Network Ltd.	318
Total Equity Investments in Subsidiary Companies	2,640

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

GAME NETWORK ON LINE S.R.L.	AMOUNTS IN EURO THOUSANDS
Registered Office	Milan
Quota Capital	84
Loss for period ended June 30,	(51)
Quotaholders' equity	33
Percentage interest held	100%
Book value	500

The subsidiary was founded on December 20, 2000. It is believed that the loss can be recovered in subsequent years

TWINE HOLDINGS LTD.	AMOUNTS IN EURO THOUSANDS
Registered Office	London
Share Capital	1
Result for period ended June 30,	0
Shareholders' equity	8
Percentage interest held	66.75%
Book value	2

Subsidiary Twine Holdings Ltd. holds a 100% stake in English company Eon Digital Entertainment Ltd.

GAME NETWORK S.P.A.	AMOUNTS IN EURO THOUSANDS
Registered Office	Milan
Share Capital	1,000
Loss for period ended June 30,	(1,199)
Shareholders' equity	(199)
Percentage interest held	100%
Book value	1,820

The loss for the year was due to costs incurred in relation to the start-up of corporate activities. The valuation of the investment has been maintained at cost as the subsidiary's losses are not believed to be of a permanent nature.

GAME NETWORK LTD.	AMOUNTS IN EURO THOUSANDS
Registered Office	London
Share Capital	(1,657)
Loss for period ended June 30,	(162)
Shareholders' equity	(1,819)
Percentage interest held	100%
Book value	318

The loss for the period is the result of costs regarding the start-up of the company's activities. The valuation of the investment has been maintained at cost as the subsidiary's losses are not considered to be of a permanent nature.

C) Current assets

I. Inventory

AMOUNTS IN EURO	
Balance at June 30, 2002	14,682,011
Balance at December 31, 2001	13,298,817
Total Increase	1,383,194

The increase may be analysed as follows:

AMOUNTS IN EURO	30.06.02
Increase in finished goods inventory	1,164,314
Total Increase	1,164,314

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

II. Receivables

AMOUNTS IN EURO	
Balance at June 30, 2002	22,862,505
Balance at December 31, 2001	25,797,815
Total Decrease	(2,935,310)

The balance may be analysed by due date as follows:

EURO THOUSANDS	DUE AFTER MORE THAN A YEAR	DUE AFTER MORE THAN A YEAR	DUE AFTER MORE THAN 5 YEARS	TOTAL RECEIVABLES
Trade accounts	15,536			15,536
Due from subsidiary companies	7,004			7,004
Other receivables	104	219		323
Balance at June 30, 2002	22,644	219	0	22,863

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

At June 30, 2002, the Company had insured receivables totalling around Euro 4.7 million and factored receivables amounting to Euro 1.3 million.

All of the balances factored and insured relate to invoices that have not yet been collected.

The total costs incurred in relation to these operations amount to around Euro 130 thousand.

The par value of receivables has been brought into line with estimated realisable value by means of a provision for doubtful accounts. During the period, the provision increased by Euro 33 thousand in relation to the merger with Evolution Entertainment.

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

“Other receivables” may be analysed as follows:

EURO THOUSANDS	30.06.02
IRPEG paid on account	12
IRAP paid on account	61
Advances to suppliers	24
Deferred tax assets – IRPEG	88
Due from publishers	115
Due from INAIL (social security institution)	14
Due from tax authorities – withholding taxes suffered	5
Other receivables	4
Total other receivables	323

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

III. Financial assets (current)

AMOUNTS IN EURO	
Balance at June 30, 2002	3,468,608
Balance at December 31, 2001	3,836,300
Total Decrease	(367,692)

The decrease relates to the temporary employment of funds in open ended mutual funds concentrating on bonds and short-term bonds. The full balance has been offered as security for borrowing facilities and short-term sureties.

IV. Cash at bank and on hand

AMOUNTS IN EURO	
Balance at June 30, 2002	2,136,473
Balance at December 31, 2001	2,143,901
Total Decrease	(7,428)

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

D) Prepayments and accrued income

AMOUNTS IN EURO	
Balance at June 30, 2002	113,979
Balance at December 31, 2001	221,817
Total Decrease	(107,838)

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. It may be analysed as follows:

EURO THOUSANDS	30.06.02
Telephone	1
Insurance	32
Leasing instalments	38
Contract costs	30
Maintenance costs	13
Total prepayments	114

LIABILITIES AND SHAREHOLDERS' EQUITY

A) Shareholders' equity

EURO THOUSANDS	31.12.01	ALLOCATION OF 2001 PROFITS	SHARE CAPITAL INCREASE	LOSS FOR 2002	30.06.2002
Share Capital	1,625		3,535		5,160
Share Premium Reserve	39,666		(3,483)		36,183
Legal Reserve	259				259
Retained earnings (accumulated losses)	(1,035)	(13,631)			(14,665)
Profit (Loss) for the period	(13,631)	13,631		(1,486)	(1,486)
Total Shareholders' Equity	26,884	0	52	(1,486)	25,450

At June 30, 2002, wholly subscribed and paid up share capital amounted to Euro 5,160,000 and consisted of 12,900,000 shares with a nominal value of Euro 0.40 each.

Operations involving shares and shareholders' equity in the period ended June 30, 2002 may be summarised as follows:

- On February 26, 2002, an Extraordinary General Meeting approved a paid share capital increase of Euro 52,000 involving the issue of 400,000 new shares with a par value of Euro 0.13 each to the minority shareholder, holding a 33% interest, of Game Channel S.p.A., a company absorbed by Digital Bros S.p.A.;
- On April 19, 2002, an Extraordinary General Meeting approved a free share capital increase of Euro 3,483,000 by allocating that amount from the Share Premium Reserve to Share Capital and increasing the par value of each share from Euro 0.13 to Euro 0.40.

As a result of the above operations, as at June 30, 2002, the Company's Share Capital was as follows:

TYPE	NUMBER OF SHARES	PAR VALUE
Ordinary shares	12,900,000	0.4
Subscribed during year	400,000	0.4

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

B) Provisions for risks and charges

AMOUNTS IN EURO	
Balance at June 30, 2002	174,809
Balance at December 31, 2001	0
Total Increase	174,809

"Provisions for risks and charges" represents an accrual to the tax provision considered necessary in respect of the findings of the tax authorities in relation to the year from January 1, 1998 to December 31, 1998. The amount of the tax provision was determined based on the estimated amount of the tax liability to be assessed.

The balance was provided in full during the period.

C) Employee termination indemnity provision

AMOUNTS IN EURO	
Balance at June 30, 2002	335,672
Balance at December 31, 2001	267,928
Total Increase	67,744

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

EURO THOUSANDS	
Employee termination indemnity provision at December 31, 2001	268
Paid to leavers	(33)
Balances transferred from subsidiaries absorbed during period	24
Provision for the period	77
Employee termination indemnity provision at June 30, 2002	336

Employees

During the period ended June 30, 2002, the average number of employees (i.e. the average of month end employee numbers) and the number of employees at period end was as follows:

CATEGORY	AVERAGE NO OF EMPLOYEES	PERIOD END NO OF EMPLOYEES
Managers	3	3
Office workers	58	61
Manual workers and apprentices	2	2
Total	63	66

D) Payables

AMOUNTS IN EURO	
Balance at June 30, 2002	26,263,580
Balance at December 31, 2001	25,784,182
Total Increase	479,398

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

EURO THOUSANDS	DUE AFTER LESS THAN A YEAR	DUE AFTER MORE THAN A YEAR	DUE AFTER MORE THAN 5 YEARS	TOTAL PAYABLES
Due to banks	16,940	92		17,032
Trade accounts	5,755			5,755
Due to other lenders	1,015			1,015
Due to subsidiary companies	271			271
Due to tax authorities	1,503			1,503
Due to social security institutions	136			136
Other payables	552			552
Balance at June 30, 2002	26,172	92	0	26,264

"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 payable and the accrual for goods received not invoiced.

"Amounts due to subsidiary companies" include trade payables and financial payables.

"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:

EURO THOUSANDS	30.06.02
Due to supplementary pension funds	12
Due to INPS	106
Due to INAIL	8
Due to ENASARCO	10
Total amounts due to social security institutions	136

“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

AMOUNTS IN EURO	
Balance at June 30, 2002	173,387
Balance at December 31, 2001	257,404
Total Decrease	(84,017)

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.

There is no deferred income. The entire balance consists of accrued expenses:

EURO THOUSANDS	30.06.02
Accrued commission	173
Total accrued expenses	173

Memorandum accounts

Memorandum accounts may be analysed as follows:

EURO THOUSANDS	30.06.02
Sureties issued to third parties	277
Real securities given to third parties	775
Finance lease commitments	397
Memorandum accounts	1,449

“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 dei Paschi di Siena.

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

EURO THOUSANDS	30.06.02
Servers and Internet equipment	91
Other fixed assets	306
Finance lease commitments	397

INCOME STATEMENT

A) Value of production

AMOUNTS IN EURO	
Balance at June 30, 2002	22,016,777
Balance at December 31, 2001	39,342,440
Balance at June 30, 2001	17,695,776
Total Increase June 30, 2002 – June 30, 2001	4,321,001

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

AMOUNTS IN EURO	30.06.02	31.12.01	30.06.01	DIFFERENCE
Revenues from sales and services	20,529,323	33,903,196	12,737,660	7,791,663
Change in inventory of finished goods	839,329	4,093,865	4,312,745	(3,473,416)
Other revenues and income	648,125	1,345,379	645,371	2,754
Total value of production	22,016,777	39,342,440	17,695,776	4,321,001

B) Production costs

AMOUNTS IN EURO	
Balance at June 30, 2002	22,018,714
Balance at December 31, 2001	37,101,726
Balance at June 30, 2001	18,753,420
Total Increase June 30, 2002 – June 30, 2001	3,265,294

The increase may be analysed as follows:

AMOUNTS IN EURO	30.06.02	31.12.01	30.06.01	DIFFERENCE
Raw materials and goods	15,157	22,335	13,435	1,722
Services	3,682	9,224	2,651	1,031
Use of third party assets / Leases and rentals	334	642	326	8
Wages and salaries	1,085	1,973	1,015	70
Social contributions	353	679	343	10
Employee termination indemnity	77	140	57	20
Other personnel costs	0	3	0	0
Amortisation of intangible assets	650	1,214	599	51
Depreciation of tangible fixed assets	74	159	88	(14)
Other writedowns	0	236	0	0
Provisions for risks	175	0	0	175
Sundry operating charges	432	497	239	193
Total production costs	22,019	37,102	18,753	3,266

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:

EURO THOUSANDS	30.06.02
Interest on securities	29
Bank interest income	25
Total financial income	54

Financial charges may be analysed as follows:

EURO THOUSANDS	30.06.02
Bank interest and charges	598
Factoring interest and charges	96
Other interest payable	58
Exchange losses	75
Total financial charges	827

D) Extraordinary income and charges

Extraordinary income may be analysed as follows:

EURO THOUSANDS	30.06.02
Non-existent liabilities	76
Other unaccrued prior year income	10
Over accrual of costs	20
Total extraordinary income	106

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

Extraordinary charges may be analysed as follows:

EURO THOUSANDS	30.06.02
Adjustment to prior year revenues	690
Non-existent receivables	39
Total extraordinary charges	729

Extraordinary charges essentially relate to the return by clients of products totalling Euro 690 thousand sold during the previous year.

E) Taxes on income

AMOUNTS IN EURO	
Balance at June 30, 2002	87,452
Balance at December 31, 2001	39,715
Balance at June 30, 2001	0
Total increase June 30, 2002 – June 30, 2001	87,452

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

AMOUNTS IN EURO THOUSANDS	30.06.02	31.12.01	30.06.01	DIFFERENCE
IRAP	87	40	0	N/A
Deferred tax – IRPEG	0	0	0	0
Total taxes on income	87	40	0	N/A

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.

NAME	POSITION	PERIOD OF OFFICE IN 2002	EMOLUMENTS	OTHER EMOLUMENTS (1)	OTHER EMOLUMENTS (2)
Board of Directors					
Abramo Galante	Chairman and Managing Director	From 01.01.2002 to 30.06.2002	90,151	0	0
Raffaele Galante	Managing Director	From 01.01.2002 to 30.06.2002	90,742	0	0
Lidia Florean	Director	From 01.01.2002 to 30.06.2002	40,694	0	0
John Burns	Director	From 01.01.2002 to 16.01.2002	0	0	395,498
Davide Galante	Director	From 01.01.2002 to 30.06.2002	0	0	0
Sem Bruno Moioli	Director	From 01.01.2001 to 30.06.2002	0	72,350	0
Bruno Soresina	Director	From 01.01.2002 to 30.06.2002	24,270	0	0
Dario Treves	Director	From 01.01.2002 to 30.06.2002	0	28,352	0
Sergio Treves	Director	From 01.01.2002 to 30.06.2002	0	0	0
Board of Statutory Auditors					
Franco Gaslini	Chairman	From 01.01.2002 to 30.06.2002	0	0	0
Franco Tarantola	Statutory Auditor	From 01.01.2002 to 30.06.2002	0	0	0
Piergiorgio Picozzi	Statutory Auditor	From 01.01.2002 to 30.06.2002	0	0	0
Pietro Ottone	Substitute Statutory Auditor	From 01.01.2002 to 30.06.2002	0	0	0
Maurizio Picciotto	Substitute Statutory Auditor	From 01.01.2002 to 30.06.2002	0	0	0

(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 PERIOD					SHARES ALLOTTED OR OPTIONS EXERCISED DURING THE PERIOD			
Shares allotted without payment		Purchase or subscription option rights			Shares allotted without payment		Purchase or subscription option rights	
SURNAME AND NAME	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
Florean Lidia	0		7,500	16 €	(1)	0	0	0
Burns John	0		15,000	16 €	(1)	0	0	0
Moioli Sem	0		15,000	16 €	(1)	0	0	0
Soresina Bruno	0		3,500	16 €	(1)	0	0	0
Treves Dario	0		7,500	16 €	(1)	0	0	0
Treves Sergio	0		3,500	16 €	(1)	0	0	0

(2) 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	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	65,000	(95,000)	253,728
John Burns (1)	Twine Ltd.	33,25%	0	0	33,25%
Sem Moioli	Game Channel S.p.A.	165,000	0	165,000	0
Sem Moioli (2)	Digital Bros S.p.A.	0	400,000	0	400,000

(1) Director until January 16, 2002

(2) The result of the absorption of Game Channel S.p.A. by Digital Bros S.p.A. as approved by Extraordinary General Meeting of February 26, 2002.

The Board of Directors of the company will remain in office until the approval of the financial statements. 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 period.

For and on behalf of the Board of Directors
The Chairman
(Abramo Galante)

This report on operations relates to the financial statements of Digital Bros S.p.A. for the period ended June 30, 2002.

Revenues from sales and services amounted to Euro 20,529 thousand.

The loss for the period ended June 30, 2002 was around Euro 1,486 thousand.

On February 26, 2002, the Company absorbed its 100% owned subsidiaries Evolution Entertainment S.r.l. and Communications & Promotions S.r.l. and its 67% owned subsidiary Game Channel S.p.A. with effect for tax and statutory reporting purposes from January 1, 2002. Digital Bros has continued to operate in the UK Digital Television market through subsidiary Game Network Ltd. and in the Italian advertising market through 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.

Analysis of Income Statement performance

Digital Bros recorded sales revenues of around Euro 20,529 thousand in the first half of 2002, a 61% increase on the Euro 12,738 thousand recorded in the first half of 2001.

The net loss for the period of Euro 1,486 thousand compares with a net loss of Euro 1,983 thousand for the first half of 2001, representing an improvement of Euro 497 thousand.

The loss was almost entirely brought about by the reduced length of the accounting period – only six months – and the fact that traditional seasonal factors that affect sales in the video games sector came into play. The Company records much of its turnover in the final quarter of the calendar year because consumers are more ready to buy video games in the winter months and as Christmas presents. Another factor is the launch of well known and/or highly successful video game titles by publishers in the final quarter of the year.

Revenue performance

As last year, the bulk of the Company's revenues were generated by the distribution of video games in Italy under the Halifax label. The following table contains an analysis of revenues by category:

EURO THOUSANDS	30.06.02	31.12.01	30.06.01	DIFFERENCE 2002/2001	%
Distribution of video games for consoles	16,987	27,602	10,056	6,931	69%
Distribution of video games for PC	1,632	5,992	2,639	(1,007)	(38)%
Distribution of accessories	1,891	309	51	1,840	
Total Distribution of Products - Italy	20,510	33,903	12,733	7,777	61%
Revenues from subsidiary companies	19	0	5	14	280%
Total revenues from sales	20,529	33,903	12,738	7,791	61%

Revenues increased by 61% in the first half of 2002 compared to the same period of 2001. This was the result of a similar increase in revenues from the distribution of products in Italy.

Revenues from distribution of video games for consoles

The phase of stagnation that the market went through in the previous two years now appears to have been left behind. The first half of 2002 saw Microsoft and Nintendo launch two new gaming platforms/consoles, the Microsoft Xbox and the Nintendo GameCube, respectively. The launch of these products completes the phase of transition

from 64 bit to 128 bit consoles.

The entry of new competitors onto the market (Microsoft) and the launch of a new console by one of the best established players (Nintendo) resulted in a "console war" with hardware prices falling below previously announced levels right from the launch date and further reductions expected in the near future. The price war in the hardware sector means that these consoles penetrate a larger number of families and the larger user base has, as a direct result, an increase in software units sold. The initial signs are already apparent. Indeed, the Company's revenues from the distribution of video games for consoles in Italy increased by 69% from Euro 10,056 thousand in the first half of 2001 to Euro 16,987 thousand in the first half of 2002.

Digital Bros' main activity is the distribution of video games for consoles and it will benefit from the healthy state of this sector of the market in the second half of 2002, as well.

In order to provide an understanding of future developments and of what has happened so far, it is interesting to compare sales by console type in the six months ended June 30, 2002 with similar figures for the entire year ended December 31, 2001, together with average selling prices in each period.

EURO THOUSANDS	30.06.02		31.12.01		% WEIGHT	
	UNITS	TURNOVER	UNITS	TURNOVER	2002	2001
Sega Dreamcast	1,146	6	9,145	188	0%	1%
Nintendo Gameboy	29,582	552	146,824	2,584	3%	9%
Nintendo Gameboy Advance	23,687	884	53,781	1,962	5%	7%
Nintendo 64	0	0	40,045	293	0%	1%
Sony Playstation	122,666	1,783	502,926	9,280	11%	34%
Sony Playstation 2	284,655	11,951	346,609	13,294	70%	48%
Game Cube	25,548	1,117	0	0	7%	0%
X-Box	15,027	694	0	0	4%	0%
Total Distribution for Consoles	502,312	17,001	1,099,330	27,601	100%	100%

AMOUNTS IN EURO	30.06.02	31.12.01	DIFFERENCE
	AVERAGE PRICE	AVERAGE PRICE	%
Nintendo Gameboy	18.7	17.6	6%
Nintendo Gameboy Advance	37.3	36.5	2%
Sony Playstation	14.5	18.5	-22%
Sony Playstation 2	42	38.4	9%
Game Cube	43.7	0	n.s
X-box	46.2	0	n.s
Total Distribution for Consoles	33.8	25.1	35%

The launch of the new Microsoft Xbox and Nintendo GameCube platforms did not have a major impact on total sales revenues for the first half of 2002. Sales of products for these consoles represented 11% of the total – 7% for GameCube software and 4% for Xbox software.

Microsoft only launched the Xbox in March while Nintendo's GameCube was launched in May. As a result, they will represent more than 10% of total sales revenues in the first six months of the financial year ending June 30, 2003. During the six months ended June 30, 2002, the most significant source of revenues was the sale of video games for the Sony Playstation2 console which represented 70% of total revenues from the distribution of products for consoles and 56% of total sales revenues. Despite the aforementioned seasonal factors, it should be noted that the 284,655 units were sold in the first half of 2002, 82% of the total units sold throughout the whole of 2001.

The success of the Playstation 2 – it is thought that more than 500,000 of these consoles are now in use in Italy – together with the launch of games developed specifically for it e.g. "Metal Gear Solid 2" distributed by Digital Bros in the first half of 2002 has enabled an increase in average selling price from Euro 38.4 in 2001 to Euro 42 in the first half of 2002.

The Nintendo GameBoy Advance handheld console continues to penetrate the market in a linear manner, typical of the life cycle enjoyed by its predecessor the Game Boy Color which was much longer than the life cycle of gaming platforms that require to be attached to a TV. The percentage weight of revenues from sales of software for this platform fell from 7% in 2001 to 5% in the first half of 2002. This was largely the result of the success of the Playstation 2 rather than of a slowdown in sales of products for the GameBoy Advance. In actual fact, the number of software units sold in the first half of 2002 was almost 50% of the total number of units sold in the whole of 2001. Bearing in mind the peak pre-Christmas period, it is reasonable to expect a clear increase in the number of units sold in this sector in 2002 as a whole.

The first half of 2002 saw the gradual slowdown of sales of software for the two consoles that led the market in its previous cycle from 1997 to 2001, the Sony Playstation and the Nintendo GameBoy Color. Compared to the year ended December 31, 2001, as a percentage of total sales revenues, sales of software for these consoles fell from 34% to 11% and from 9% to 3%, respectively.

Revenues from distribution of products for PC

The first half of 2002 saw sales in this sector fall by 40% compared to the same period in 2001 from Euro 2,735 thousand to Euro 1,632 thousand. The decrease is due to the fact that the sector has reached maturity and has recorded negative growth for several years now. The cannibalisation of software for the new consoles should also be borne in mind. This has led to a gradual improvement in gaming performance.

Revenues from the sale of accessories and hardware

The strong growth in this area is due to the sub-distribution agreement in Italy signed by Digital Bros and Nintendo Europe. Historically, the Company had never been involved to a significant extent in the hardware sales area for strategic reasons. The distribution agreement for the Nintendo GameCube and other consoles together with Nintendo software offers the Group the chance to increase market penetration through hardware and software sales but also gives it a presence in the toy retail distribution channel which has traditionally been more closely associated with Nintendo.

Geographical analysis of revenues

Any geographical analysis of sales revenues offers little as the parent company's entire sales revenues are generated in Italy.

Costs

PURCHASES OF RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS FOR RESALE

As the revenues trend shows, the Digital Bros' main activity during the period was the distribution of video games in Italy. 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.

The following table provides further information about purchases, showing them as a percentage of revenues from publishing and distribution activities together with comparatives for 2001:

EURO THOUSANDS	30.06.02		31.12.01	
Total revenues from the sale of video games (a)	20,529	100%	33,903	100%
Purchases	(15,157)		(22,335)	
Change in Inventory	839		4,094	
Total cost of goods sold (b)	(14,318)	-70%	(18,241)	-54%
Value Added (a)-(b)	6,211	30%	15,662	46%

The significant decrease in Value Added as a percentage of total revenues is due to the extraordinary policy in relation to the return of goods adopted in 2001. This involved the recording of related losses under extraordinary charges while related gains were recorded under changes in inventory and had a significant impact on Value Added.

SERVICES

EURO THOUSANDS	30.06.2002	31.12.2001	30.06.2001	DIFFERENCE	%
Advertising, marketing, trade fairs and exhibitions	725	1,800	452	273	60%
Commission and incidental charges	425	779	348	77	22%
Transport and freight costs	318	674	292	26	9%
Distribution costs	1	4	31	(30)	(97%)
Insurance	58	130	66	(8)	(12%)
Professional advisors, freelance staff, lawyers and notaries	250	759	355	(105)	(30%)
Postage and telephone	187	1,137	186	1	1%
Travel and subsistence costs	80	242	97	(17)	(18%)
Entertainment	19	25	9	10	111%
Sundry utilities	13	29	16	(3)	(19%)
Temporary staff costs	67	125	40	27	68%
Maintenance costs	67	113	60	7	12%
Directors' fees	341	703	374	(33)	(9%)
Statutory auditors' fees	22	44	18	4	22%
Other general and administrative costs	283	624	307	(24)	(8%)
Services sub-total	2,856	7,188	2,651	205	8%
Licences	826	2,036	0	826	0
Total services	3,682	9,224	2,651	1,031	39%

In order to compare total service costs with those recorded in the first half of 2001, we had to calculate a sub-total of service costs which excludes licences. In the first half of 2001, licences were included under "purchases of raw materials, etc." while they were, more appropriately, classified under service costs as from the financial statements for the year ended December 31, 2001.

As a result of the reclassification, service costs increased by Euro 205 thousand from Euro 2,651 thousand in the first half of 2001 to Euro 2,856 thousand in the corresponding period in 2002.

The increase was entirely due to the fact that Digital Bros S.p.A. incurred certain costs (e.g. freelance consultancy costs, postage and telephone) which were then recharged to other Group companies.

Naturally, those service costs that are directly related to sales volumes have increased i.e. advertising, marketing, commission and incidental charges, transport and freight costs and distribution costs. These items increased by a total of Euro 340 thousand, a 30% increase on total costs incurred in the six months ended June 30, 2001. This increase is much lower than the 60% increase in revenues from distribution activities showing that the Company has obtained significant benefits in this area.

The increase in "Licences" relates to the royalties paid to Disney Interactive under the co-publishing and distribution agreement signed by Digital Bros on October 1, 2000 and renewed in 2002. Unlike other Italian and international licences which are capitalised under intangible assets, licences under this contract have been charged directly to the income statement as the contract lasts for less than twelve months.

PERSONNEL COSTS

EURO THOUSANDS	30.06.2002	31.12.01	30.06.01	DIFFERENCE	%
Wages and salaries	1,085	1,973	1,015	70	7%
Social contributions	353	679	343	10	3%
Employee termination indemnity provision	77	140	58	19	33%
Other	0	3	0	0	0%
Total personnel costs	1,515	2,795	1,416	99	7%
Average no of employees	63	67	67	(4)	(6)%
Average annual cost per employee	48	42	42	6	14%

The higher average cost per employee is the result of standard salary increases.

ACCRUAL TO PROVISIONS FOR RISKS AND CHARGES

This amount has been provided in respect of contingent tax liabilities.

INVESTMENTS AND WORKING CAPITAL

Changes in the video games market during the period, the important corporate operations that took place and investments in licences to publish video games all had a significant impact on the equity structure during the year.

INVESTMENTS

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

NET WORKING CAPITAL

In order to show the net working capital trend more clearly and explain the factors that have led to the significant decrease in net working capital, the following table compares balance sheet figures at June 30, 2002 with prior year figures:

EURO THOUSANDS	30.06.02	31.12.01	30.06.01	DIFFERENCE
Inventory	14,682	13,299	13,518	1,164
Trade receivables	15,536	17,961	20,388	(4,852)
Other receivables	103	178	3,429	(3,326)
Prepayments and accrued income	114	222	287	(173)
Trade payables	(5,755)	(6,048)	(7,562)	1,807
Other payables	(2,191)	(2,298)	(970)	(1,221)
Accrued expenses	(173)	(257)	(448)	275
Total Net Working Capital	22,316	23,057	28,642	(6,326)

Net working capital has fallen because current assets have decreased by more than current liabilities. The overall decrease in consolidated net working capital is the result of several factors:

- The stagnant state of the video games distribution market in Italy last year had a significant impact and led the Company to adopt an extraordinary policy regarding returns from certain customers. This policy has meant that trade receivables have decreased by Euro 6,300 thousand compared to June 30, 2001 despite a significant increase in sales revenues in the first half of 2002.
- The fall in other receivables is the result of a decrease in advances to suppliers and relates to the fees paid to Ing Barings at the time of the listing on the New Market which were still included under this heading at June 30, 2001.

Meanwhile:

- The decrease in trade payables related to the fact that the June 30, 2001 balance included amounts due to Ing Barings as described above.

Considering the above, any attempt to calculate average days sales or purchases outstanding would lead to a somewhat distorted result.

Net working capital is expected to increase as a result of the growth in Group revenues anticipated for the second half of 2002.

NET FINANCIAL POSITION

At June 30, 2002, the net financial position was negative by Euro 12,441 thousand. This compared to a negative net financial position of Euro 12,296 thousand at December 31, 2001.

Euro thousands	30.06.02	31.12.01	30.06.01	DIFFERENCE
Other securities	3,469	3,836	2,360	1,109
Bank and post office accounts	2,126	2,142	5,605	(3,479)
Due to other lenders	(1,015)	0	0	(1,015)
Cash on hand	11	2	5	6
Due to banks	(17,032)	(17,038)	(20,266)	3,234
Net financial position	(12,441)	(11,058)	(12,296)	(145)

SIGNIFICANT SUBSEQUENT EVENTS

On July 28, 2002, a bond loan of Euro 4 million convertible into Digital Bros ordinary shares was issued. The bond loan was entirely subscribed by Société Generale and provides for a minimum conversion price of Euro 3 per share; this figure shall be revised on a quarterly basis in relation to the market share price. The bond loan shall have a three year duration and is remunerated at a fixed rate of 6.5%.

BUSINESS OUTLOOK

The sales recovery seen in the first half of 2002 together with the positive market performance in July and August 2002 – traditionally the worst months in terms of sales revenues – plus the positive impact of the contract signed with Nintendo lead us to believe that, in line with the strategic plan approved by the Board of Directors on October 1, 2001, revenues in the distribution sector in 2002 will exceed Euro 60 million. This represents 100% growth on the period just ended.

With regard to profitability, the cost saving measures already taken as well as measures to reduce fixed costs by using outsourcing in order to bring down the break-even point will make the Income Statement structure more flexible. We believe that net profit at EBIT level is a distinct possibility.

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 provisions 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 body 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 eight 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 Director, have executive powers
- The Chairman and the Managing Director 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 June 30, 2002, these relations were summarised as follows:

EURO THOUSANDS	RELATED PARTIES	
Receivables/(Payables) Eon/Twine	3,715	(148)
Receivables/(Payables) Nopay	3,151	0
Receivables/(Payables) Game Network S.p.A.	1,076	0
Receivables/(Payables) Game Network Ltd	1,174	0
Receivables/(Payables) AD1	1	0
Receivables/(Payables) Game Network On Line S.r.l.	1,037	(32)
(Costs)/Revenues Game network S.p.A.	0	162
(Costs)/Revenues Game network On Line	10	191
(Costs)/Revenues AD1	0	1

No costs or revenues regarding related parties were recorded during the period.

The only dealings between Group companies and related parties other than subsidiaries are regulated by the contracts signed in July 2000 by Digital Bros S.p.A. and Communications & Promotions S.r.l. (now absorbed by Digital Bros) on the one hand and Nopay S.r.l. on the other. The agreement provided that the Group companies billed Nopay S.r.l. costs incurred in respect of telephone traffic, the use of broad band, the use of equipment and the cost of personnel used in respect of the development and maintenance of the nopay.it web site. Nopay S.r.l. pays the Company the amount of costs incurred and documented plus 5%.

Research and development activities

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

Secondary offices

During the period, the Company operated from the following premises:

Company	Location	Activities
Digital Bros S.p.A.	Via Bisceglie 71/73 Building B - Milan	Offices, workshops, warehouse

Equity investments held by the directors and statutory auditors

Pursuant to CONSOB Resolution 11971/99 as subsequently modified, we set out below a list of the equity investments held by the directors. The statutory auditors do not hold any investments in the Company.

NAME AND SURNAME	COMPANY INVESTMENT HELD IN	NO OF SHARES HELD AT END OF PREVIOUS ACCOUNTING PERIOD	NO OF SHARES PURCHASED	NO OF SHARES SOLD	NO OF SHARES HELD AT END OF CURRENT ACCOUNTING PERIOD
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	65,000	(95,000)	253,728
John Burns (1)	Twine Ltd.	33.25%	0	0	33.25%
Sem Moioli	Game Channel S.p.A.	165,000		165,000	0
Sem Moioli (2)	Digital Bros S.p.A.	0	400,000	0	400,000

(1) Director until January 16, 2002

(2) Effect of absorption of Game Channel S.p.A. by Digital Bros S.p.A. as approved by Extraordinary General Meeting on February 26, 2002.

For and on behalf of the Board of Directors
The Chairman
(Abramo Galante)

