



Digital Bros S.p.A.

Six-month Report to 31 December 2004

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GOVERNANCE

Board of Directors

Chairman and Managing Director

Abramo Galante

Managing Director

Raffaele Galante

Directors

Martial Chaillet (*), Davide Galante, Sem Bruno Moioli, Bruno Soresina (**), Dario Treves, Sergio Treves (**)

(*) Non-executive director

(**) Independent directors

The chairman and managing director are assigned separate powers of ordinary and extraordinary administration

Statutory Audit Committee

Standing Auditors

Franco Gaslini, chairman of the Statutory Audit Committee, Standing Auditor

Giovanni Giovannini, Standing Auditor

Paolo Villa, Standing Auditor

Alternates

Alessandro Carducci Artemisio, alternate

Marcello Priori, alternate

Both the governance bodies serve a three-year term ending with the approval of the financial statements for fiscal year 2004-05

External auditors

In their meeting of 5 March 2004, the shareholders engaged Reconta Ernst & Young S.p.A. for the period 2004-2006

Consolidated Six-month Situation to 31 December 2004

Balance Sheet

Amounts in € thousands

ASSETS:	31 December 2004	30 June 2004	31 December 2003
B) Noncurrent assets			
I - Intangible assets			
1) organization and expansion costs	386	659	1,196
4) concessions, licenses, trademarks and similar rights	947	714	1,423
5) goodwill	0	467	524
6) noncurrent assets in process and payments on account	922	909	587
7) other	80	76	147
Total intangible assets	2,335	2,825	3,877
II - Property, plant and equipment			
1) land and buildings	2,946	455	461
2) plant and machinery	3	6	9
3) Industrial and commercial equipment	448	450	523
4) other assets	3	1	2
Total property, plant and equipment	3,400	912	995
III - Noncurrent financial assets			
2) receivables			
e) due from others			
b) non-current	44	47	7
Total Noncurrent financial assets	44	47	7
Total Noncurrent Assets (B)	5,779	3,784	4,879
C) Current assets			
I - Inventories			
4) finished products and goods for resale	20,304	18,672	17,980
Total Inventories	20,304	18,672	17,980
II - Receivables (net)			
1) trade receivables			
a) current	27,474	18,545	22,967
b) non-current	1,740	2,414	2,851
2) subsidiaries			
b) non-current	3,640	3,639	3,636
4bis) tax credits			
a) current	308	318	32
4ter) prepaid taxes			
a) current	1,067	1,067	1,067
b) non-current	2,424	2,424	2,424
5) due from others			
a) current	1,600	1,016	266
b) non-current	118	118	3
Total Receivables	38,371	29,541	33,246

	31 December 2004	30 June 2004	31 December 2003
III - Investments not carried as noncurrent assets			
4) own shares	97	97	0
5) other securities	2,583	3,293	3,502
Total financial assets	2,680	3,390	3,502
IV - Cash and cash equivalents			
1) bank and P.O. deposits	1,523	1,691	1,830
3) cash and valuables on hand	6	24	5
Total Cash and cash equivalents	1,529	1,715	1,835
Total current assets (C)	62,884	53,318	56,563
D) Prepaid expense and accrued income			
b) Prepaid expense (D)	319	402	564
Total assets (B+C+D)	68,982	57,504	62,006

LIABILITIES:	31 December 2004	30 June 2004	31 December 2003
A) Shareholders' equity			
I - Capital	5,388	5,388	5,388
II - Share premium reserve	37,685	37,688	37,785
IV - Legal reserve	260	258	258
VI Own shares in portfolio	97	97	0
VIII - Retained earnings (losses)	(22,737)	(23,196)	(23,196)
Sub-total	20,693	20,235	20,235
IX - Net profit (loss) for the period	3,749	457	255
Total Shareholders' equity (A)	24,442	20,692	20,490
B) Provisions			
2) for taxes	0	0	54
3) other	4,911	4,018	3,101
Total Provisions (B)	4,911	4,018	3,155
Staff severance indemnity fund (C)	603	589	555
D) Payables:			
2) convertible bonds			
a) current	2,170	0	0
b) Amounts payable beyond 12 months	0	2,170	2,170
4) amounts owed to banks			
a) current	22,564	18,711	25,345
5) amounts owed to other lenders			
a) current	96	0	0
b) non-current	1,777	168	169
6) payments on account			
a) current	271	0	0
7) trade payables			
a) current	9,398	7,495	7,060
12) taxes payable			
a) current	399	1,977	1,774
13) amounts payable to pension and social-security institutes			
a) current	190	163	187
14) other payables			
a) current	733	767	513
Total Payables (D)	37,598	31,451	37,218
E) Accrued expense and deferred income			
a) Accrued expense	1,292	621	588
b) Deferred income	136	133	0
Total Accrued expense and deferred income (E)	1,428	754	588
Total liabilities and shareholders' equity (A+B+C+D+E)	68,982	57,504	62,006
OFF-BALANCE SHEET ITEMS:			
a) Guarantees granted	4,356	3,354	775
b) Derivative contracts	23,000	10,888	28,446
e) Commitments	0	0	2,777
Total off-balance sheet items	27,356	14,242	31,998

Consolidated Income Statement

Amounts in € thousands

	1st half 2004-05	1st half 2003-04
A) Value of production		
1) revenue from sales and services	60,877	48,513
2) changes in inventories of finished goods	1,632	2,363
5) other revenues and gains:		
a) other revenue	292	328
Total value of production	62,801	51,204
B) Costs of production		
6) raw materials, ancillaries, consumables, and goods for resale	44,290	37,244
7) costs for services	7,239	6,024
8) use of third-party assets	192	252
9) personnel-related expense:		
a) salaries and wages	1,436	1,156
b) payroll contributions	445	426
c) severance indemnity	97	96
10) amortization/depreciation and write-downs:		
a) amortization of intangible assets	1,543	1,821
b) depreciation of property, plant and equipment	103	111
d) write-downs of receivables included in current assets	173	876
12) allocations to provisions	897	366
14) other operating costs	404	487
Total costs of production	56,819	48,859
Difference between value and costs of production (A-B)	5,982	2,345
C) Financial income (expense)		
16) other income financial		
c) from investments carried as current assets	56	19
e) other income	9	5
17) interest and other financial expense		
e) other interest and financial expense	(1,612)	(1,339)
Total interest and financial expense	(1,547)	(1,315)
D) Impairment losses on financial assets		
19) impairment losses		
a) equity investments	0	(566)
b) investments carried as non-current assets	0	(3,069)
Total impairment losses	0	(3,635)
E) Extraordinary income (expense)		
20) income		
b) other income	43	36
21) expense		
c) other expense	(729)	(349)
Total extraordinary items, net (20-21)	(686)	(313)
Pre-tax result (A-B+C+-D+-E)	3,749	(2,918)

Consolidated cash flow statement

Movements: 1st half 2004-05 compared to full year 2003-04

Amounts in € thousands

	1st half 2004-05	Full year 2003-04
A. Cash and cash equivalents start of period	(15,944)	(15,234)
B. Net cash flows from operating activities		
Net profit (loss) for the year	3,750	457
Amortization intangible assets	1,543	3,175
Depreciation property, plant & equip.	123	223
Net change in other provisions	893	3,911
Net change in severance indemnity fund	14	109
SUBTOTAL B.	6,323	7,875
C. Change in net working capital		
Inventories	(1,632)	(2,721)
Trade receivables	(8,930)	(3,451)
Other current receivables	(611)	(2,019)
Non-current receivables	671	(4,841)
Prepaid expense and accrued income	83	(91)
Trade payables	1,903	2,337
Payments on account	271	0
Other payables	(1,585)	144
Deferred income	674	509
SUBTOTAL C.	(9,156)	(10,133)
D. Cash flows from investing activities		
Purchase of intangible assets, net	(1,053)	(280)
Purchase of property, plant & equipment, net	(2,611)	(41)
Purchase of non-current financial assets	43	(38)
SUBTOTAL D.	(3,621)	(358)
E. Cash flows from financing activities		
Proceeds from issuance of share capital	0	1,830
SUBTOTAL E.	0	1,830
F. Movements in consolidated shareholders' equity		
Increases (Decreases) in minority equity interests	0	0
Increases (Decreases) in conversion reserve	0	(15)
Increases (Decreases) in other components of shareholders' equity	0	92
SUBTOTAL F.	0	77
G. Cash flows for the period (B+C+D+E+F)	(6,454)	(709)
H. Net financial position end of period(A+G)	(22,398)	(15,944)

Consolidated cash flow statement

Movements: first half of FY 2004-05 compared to first half of FY 2003-04

Amounts in € thousands

	1st half 2004-05	1st half 2003-04
A. Cash and cash equivalents start of period	(15,944)	(15,234)
B. Net cash flows from operating activities		
Net profit (loss) for the year	3,750	255
Amortization intangible assets	1,543	1,821
Depreciation property, plant & equip.	123	111
Net change in other provisions	893	3,048
Net change in severance indemnity fund	14	75
SUBTOTAL B.	6,323	5,310
C. Change in net working capital		
Inventories	(1,632)	(2,029)
Trade receivables	(8,930)	(7,873)
Other current receivables	(611)	(979)
Non-current receivables	671	(5,162)
Prepaid expense and accrued income	83	(253)
Trade payables	1,903	1,902
Payments on account	271	0
Other payables	(1,585)	(288)
Deferred income	674	343
SUBTOTAL C.	(9,156)	(14,338)
D. Cash flows from investing activities		
Purchase of intangible assets, net	(1,053)	22
Purchase of property, plant & equipment, net	(2,611)	(12)
Purchase of non-current financial assets	43	(2)
SUBTOTAL D.	(3,621)	8
E. Cash flows from financing activities		
Proceeds from issuance of share capital	0	1,830
SUBTOTAL E.	0	1,830
F. Movements in consolidated shareholders' equity		
Increases (Decreases) in conversion reserve	0	(15)
Increases (Decreases) in other components of shareholders' equity	0	92
SUBTOTAL F.	0	77
G. Cash flows for the period (B+C+D+E+F)	(6,454)	(7,113)
H. Net financial position end of period (A+G)	(22,398)	(22,347)

Composition of consolidated net financial position*Amounts in € thousands*

	1st half 2004-05	1st half 2003-04	Full year 2003-04
Securities not carried as non-current assets	2,680	3,502	3,390
Cash and cash equivalents	1,529	1,835	1,715
Bank debt - current	(22,564)	(25,345)	(18,711)
Debt to other lenders - current	(96)	(169)	(168)
Net current financial position	(18,451)	(20,177)	(13,774)
Bank debt – non-current	(1,777)	0	0
Convertible bonds	(2,170)	(2,170)	(2,170)
Net financial position – non-current	(3,947)	(2,170)	(2,170)
Final net financial position	(22,398)	(22,347)	(15,944)

Detail of the cash flows by current/non-current*Amounts in € thousands*

	1st half 2004-05	1st half 2003-04	Full year 2003-04
Increase (decrease) in securities, cash and cash equivalents	(896)	225	(7)
Decrease (Increase) in current bank debt	(3,853)	(9,188)	(2,552)
Current cash flow for the period	(4,749)	(8,963)	(2,559)
Non-current cash flow for the period	(1,705)	1,850	1,850
Cash flow for the period	(6,454)	(7,113)	(709)



Six-month report on the Operations of Digital Bros Group to 31 December 2004

The criteria followed in preparing the consolidated six-month situation at 31 December 2004 are the same as those followed by the company in preparing the consolidated financial statements for the year ended 30 June 2004, as well as those followed in preparing the consolidated six-month at 31 December 2003.

The subsidiaries included in the scope of consolidation at 31 December 2004 are the same ones included at 30 June 2004, that is:

Company	Head offices	Share Capital	% owned	Method
Digital Bros S.p.A.	Milan	€5,388,058	Parent	Full-line
Game Network On Line S.r.l.	Milan	€100,000	100%	Full-line
Game Network S.r.l.	Milan	€100,000	100%	Full-line
Ad1 S.r.l. (1)	Milan	€10,000	100%	Full-line
Game Service S.r.l.	Milan	€50,000	100%	Full-line

(1) Indirect investment through subsidiary Game Network S.p.A.

The only changes with respect to 30 June 2004 concern:

- increase in the capital of Game Network On Line S.r.l. from €84,450 to €100,000;
- reduction in the capital of Game Network from € 1 million to € 100,000, with the consequent transformation from a joint-stock company (S.p.A.) to a limited liability company (S.r.l.).

The financial data provided in the attached accounting schedules are compared with the respective values reported in the financial statements for the year ended 30 June 2004. To provide a better representation of the principal balance sheet items, considering the seasonality of company activities, the data at 31 December 2004 are also compared to the respective values at 31 December 2003.

The income statement data for the six months ended 31 December 2004 are compared to the respective values for the first six months of the previous fiscal year, both consolidated and separate for parent company Digital Bros S.p.A. The comparisons shown in the explanatory notes relative to the income statement items relate to the first six months of the fiscal year.

The income statement data were determined gross of the relative tax effects.

Estimation criteria

It was not necessary to follow criteria for estimating the balance sheet and income statement data different from those followed in preparing the full-year financial statements.

Breakdown of group activities

Distribution and co-publishing of videogames in Italy

The characteristic activity of the Digital Bros group is conducted directly by parent company Digital Bros S.p.A. under the Halifax trademark and consists of the localization of videogames and their subsequent distribution in Italy. The company distributes the products of international videogame publishers that have exclusive representation in Italy.

Localization, or co-publishing, consists of the linguistic and cultural adaptation of videogames to the Italian market, along with the translation of the videogame manuals, in some cases including the dubbing of the voices contained in the games. The games are localized in close cooperation between the product management departments, press office and graphics department of the company and the videogame publishers.

The contracts stipulated are of two distinct types, so during the six-month period a new division was split off from the Halifax division: DTI, acronym for Distribution Trade Italy. By virtue of this necessary rationalization, the Halifax division is concerned with localization and exclusive distribution in Italy and represents such publishers as Konami International, THQ Ltd. and Codemasters Ltd., while the DTI division only distributes the products of publishers present in Italy with their own organizations and with exclusive contracts for distribution only to the traditional retail channel, thus excluding the chains and other mass retailers. Examples of contracts in this category are those stipulated with Electronic Arts (part of their videogame catalogue), with Activision Italia (part of their catalogue) and with Vivendi Universal Games (total catalogue).

In terms of product groups, the distribution of videogames is divided into two distinct categories: the distribution of videogames for consoles (Sony PlayStation 2, Microsoft Xbox, Nintendo GameCube and Nintendo GameBoy Advance portable consoles) and the distribution of videogames for personal computer. The two segments display different growth rates, selling procedures, profit margins, and often different distribution channels.

The principal products launched during the period by the Halifax division include:

- Pro Evolution Soccer 4 for Sony PlayStation 2, Microsoft Xbox consoles and PcCDRom, published by Konami;
- WWE Smackdown vs Raw for Sony PlayStation 2 and Nintendo GameBoy Advance consoles, together with last year's version WWE Smackdown 5: Here Comes the Pain published by THQ;
- Colin Mc Rae 5 for Sony PlayStation 2 and Microsoft Xbox consoles and PcCDRom, published by Codemasters.

The principal products launched during the period by the DTI division include:

- Need for Speed Underground 2 for Sony PlayStation 2, Nintendo GameBoy Advance, and Microsoft Xbox consoles and PcCDRom, along with last year's version of Need for Speed Underground published by Electronic Arts;
- Spiderman 2 for Sony PlayStation 2, Nintendo GameBoy Advance, and Microsoft Xbox consoles and PcCDRom, published by Activision;
- Crash Bandicoot Twinsanity for Sony PlayStation 2, Nintendo GameBoy Advance, Microsoft Xbox consoles and PcCDRom, published by Vivendi Universal.

A few contracts of significant interest were stipulated during the period:

- a new exclusive distribution contract for the Italian traditional retail channel (excluding mass retailers) with Vivendi Universal Games. The company distributed such titles as the following during the period: Crash Bandicoot: Twinsanity , Spyro A Hero's Tail and the long-awaited Half Life 2;
- the contract stipulated last year with Electronic Arts was renewed, but with exclusivity limited to the traditional retail channel.

The significant business volume generated by the aforesaid contracts, along with the strong catalogue of prestigious publishers traditionally represented by Digital Bros, through the Halifax division, enabled the company to form a second national sales network consisting of agents. This purpose of this decision was to retain focus on the products traditionally distributed by Digital Bros through a sales network with years of experience.

International publishing of videogames

The international publishing of videogames consists of the selective acquisition of rights to exploit videogames from developers for subsequent launch in the market through an international sales network. The duration of contracts stipulated with developers, and the geographical possibility of exploitation, vary from one contract to another.

This activity is conducted directly by a division of parent company Digital Bros S.p.A. known as "505 Game Street", currently staffed by three persons.

The following new titles were launched by the group during the six-month period: "Energy Airforce: Aim Strike" (sequel of Energy Airforce published in the last fiscal year), "Bujingay Swordmaster", as well as six titles in the Simply 20 economical line.

Thanks to the selection activity of this department, the Group will continue to benefit in the immediate future from sales and profits.

Of great significance was the formation of a 50/50 joint venture with D3 Publishing of Japan, which will enable the Group to distribute the products of D3 Publishing--specialized in economical games for Sony PlayStation 2 consoles--on an exclusive basis in the PAL territories (Europe, Australia and South Africa).

Thematic Digital TV

The Digital Bros group, through subsidiary Game Network S.p.A., manages the Game Network satellite channel that broadcasts programs dedicated to the videogame world, 24 hours a day.

The channel is broadcast in continental Europe via the Eutelsat satellite and in the United Kingdom via the Astra satellite. The programs are visible in the clear for all owners of a reception system with a dish antenna. During the past year the signal broadcast contracts were renegotiated with both carriers. In particular, the contract with Astra was renegotiated in December 2003 but took effect in January 2005. The Eutelsat contract was renegotiated in June 2004 and took effect in July 2004.

Game Network enables viewers to interact with other viewers through the sending of "SMS" messages, by payment or premium, that are reproduced live on the TV screen. As a result, new programs were introduced enabling viewers, for example, to participate in voting to elect the best games and/or dialogue live with a person present on the screen.

During the year Game Network produced in house all the programs broadcast in the recording studio in Milan at Via Bisceglie 76, also realizing the first live programs.

On-line Gaming

This activity enables gamers with a personal computer to connect to one or more group-owned servers and play on-line, interacting with players connected to the same server. The two games that the group has acquired exclusively thus far for the European territory, "Legend of Mir" and "Myth of Soma", are of the type known as MMORPG or massive multiplayer online role-playing games. These are role-playing games in which the players, through their own characters, selected prior to play, live in a virtual world and interact with the other players present in the same virtual world, such as by speaking, exchanging virtual objects useful for play, forming groups of players allied against other groups known as "guilds", and so forth.

A fee is charged for the service, through various forms: prepaid cards, credit cards and the purchase of the videogame in stores. The system for managing this large number of small payments was developed in-house and also manages the group's e-commerce and the telemarketing activity on the Game Network channel.

The group launched a third MMORPG during the past year: "Horizons: Empire of Istaria". This game was launched in Europe on 5 December 2003; the distribution method used by the American developer Artifact Entertainment, owner of the rights to the game, is mixed by which

the box product, composed of the game and a one-month prepaid subscription, is sold through the traditional forms of distribution in retail stores, the enabling players to renew their subscriptions on line.

Rack Jobbing

This activity consists of acquiring exclusive sales space in retail chains that do not yet distribute videogames.

Through subsidiary Game Service S.r.l., the group can therefore furnish participating chains its know-how in the purchase selection of videogames in both qualitative and quantitative terms, consulting for laying out the videogame section of the store, along with the hardware known as "virtual salesperson". "Virtual salesperson" consists of a totem with screen positioned in the store that enables customers, before buying, to check the qualitative characteristics of the videogame, ensure that it corresponds to the age range for which it is intended, check the price of the videogame and availability in stock and, last but not least, view the phases of the game on screen through clips prepared by Game Network.

This activity will only be conducted in Italy.

Analysis of revenue from sales and services

The videogame distribution market is highly seasonal. The buying propensity of end consumers is concentrated in the autumn, in fact, due to the approach of Christmas and cold weather, which increases the free time spent in the home. This peculiarity is the reason why videogame publishers prefer to launch their best products in October and November. This creates a virtuous circle in which consumer demand is highest due in part to the greater availability of high-quality products.

The six-months from January to June is still important in terms of sales to end customers because the sales of successful products launches in the autumn continue and due to the launch of "event" products, i.e. those that because of their technical and/or marketing characteristics are considered "masterpieces" in the sector and therefore bolster the sales of videogames in seasonally less favorable periods. Event titles are sequels, i.e. a subsequent release of a videogame that has enjoyed particular success in its previous versions.

This seasonality, also peculiar to other sectors such as toys, have a significant impact on the structure of both the income statement and the balance sheet of the Group. In terms of the income statement, the level of fixed cost absorption varies. The greater or lesser impact of fixed costs on margins, in fact, is rather visible in the second quarter of the year (over-absorption of fixed costs and therefore higher margins in both absolute and percentage terms), the period in which the Group usually realized 40% of its total annual revenue, and in the first quarter of the year (under-absorption of fixed costs and therefore lower margins), which usually accounts for only 15% of total annual revenue.

The balance sheet structure is also closely linked to sales trends. In fact, there is a gradual increase in net working capital during the first six months of the year due to the gradual rise in finished product inventories and trade receivables, while net working capital tends to decrease steadily during the second half of the year due to the exactly opposite factors, i.e. declining inventories and receivables.

The same trend is registered in the net financial position, which reaches maximum levels as the end of the calendar year approaches.

During the six-month period, the Group completed the transfer of the AS 400-based accounting system to a new operating system based on Microsoft Business Solution- Navision. Meanwhile, in July, the commercial and administrative offices were transferred to the new premises at Via Bisceglie 76 and logistics to the newly-built facility at Trezzano sul Naviglio.

The positive results achieved during the period are all the more satisfying in light of the important improvements in operations, apart from some minor delays and interruptions in company activity during the initial phase.

In the first six months of FY 2004-05, the group registered revenue from sales and services of € 60,877 thousand, 25% more than the € 48,513 thousand in the corresponding period of the previous year.

The breakdown of revenue by activity category is as follows:

<i>€ thousands</i>	1st half 2004-05	1st half 2003-04	Change	
Distribution and localization in Italy	58,709	47,782	10,927	23%
On-line Gaming	420	321	99	31%
Digital TV	314	410	(96)	-23%
International Publishing	1,434	0	1,434	n.s.
Total Consolidated Revenue	60,877	48,513	12,364	25%

The revenue from distribution and localization in Italy, which has always been the predominant business area in group activities, rose by 23%, reaching € 58,709 thousand, versus € 47,782 thousand in the first half of 2003-04.

The detail of revenue from distribution and localization in the period was as follows:

<i>€ thousands</i>	1st half 2004-05	1st half 2003-04	Change	
Distribution Videogames for consoles	53,340	40,386	12,954	32%
Distribution Videogames for PC	5,149	5,721	(572)	-10%
Distribution Accessories and Hardware	221	1,675	(1,454)	-87%
Total Distribution Italy	58,709	47,782	10,927	23%

The following detail of revenue from the distribution of videogames for consoles by type provides a better analysis:

<i>€ thousands</i>	1st half 2004-05		1st half 2003-04		Changes	
	<i>Units</i>	<i>Sales</i>	<i>Units</i>	<i>Sales</i>	<i>Units</i>	<i>Sales</i>
Nintendo Gameboy Advance	208,036	5,871	66,084	2,022	215%	190%
Sony Playstation	59,464	752	90,198	1,643	-34%	-54%
Sony Playstation	1,142,848	41,890	832,418	31,903	37%	31%
Nintendo Gamecube	21,661	616	18,359	740	18%	-17%
Microsoft Xbox	118,710	4,211	90,375	3,608	31%	17%
Other consoles	0	0	15,291	470	n.s.	n.s.
Total Revenues Distribution Console	1,550,719	53,340	1,112,726	40,386	39%	32%

The revenues deriving from the distribution of videogames for consoles increased by 32% during the half-year with respect to H1 2003-04, from €40,386 thousand to €53,340 thousand. The increased revenue came from an increase in the number of units sold, only partially offset by a reduction in average prices:

- the volume of software units sold increased by 39%. Worthy of note were the volume increases for Nintendo Gameboy Advance (+215%) and Sony Playstation 2 (+37%);
- the average decline in unit selling prices was 7%.

These two factors typify the maturity phase of the consoles, which are nearing replacement by new, more powerful machines: high volumes due to the high penetration of the hardware in the homes of end consumers, declining prices to combat the generally rising phenomenon of piracy in the console maturity phase.

The most significant revenue in the first six months of the fiscal year was generated by the sale of videogames for Sony PlayStation 2 consoles. This revenue, in fact, represented 79% of total console distribution (see table below) and 69% of total consolidated sales for the six-month period. Over one million units were sold in the first half of 2004-05 (1,142,848, to be exact), significantly more (+37%) than the 832,418 sold in H1 2003-04.

The following products represented significant shares of sales:

- Pro Evolution Soccer 4 for Sony PlayStation 2 and Microsoft Xbox consoles and PcCDRom, published by Konami;
- WWE Smackdown vs Raw for Sony PlayStation 2 and Nintendo GameBoy Advance consoles, together with last year's version WWE Smackdown 5: Here Comes the Pain published by THQ; the success of the Disney's Christmas film "The Incredibles" greatly contributed to the success of the related videogame published by THQ for all game platforms;

- Colin Mc Rae 5 for Sony PlayStation 2 and Microsoft Xbox consoles and PcCDRom, published by Codemasters.
- Need for Speed Underground 2 for Sony PlayStation 2, Nintendo GameBoy Advance, and Microsoft Xbox consoles and PcCDRom, along with last year's version Need for Speed Underground, published by Electronic Arts;
- Spiderman 2 for Sony PlayStation 2, Nintendo GameBoy Advance and Microsoft Xbox consoles and PcCDRom, published by Activision;
- Crash Bandicoot Twinsanity for Sony PlayStation 2, Nintendo GameBoy Advance and Microsoft Xbox consoles and PcCDRom, published by Vivendi Universal. During the period the same company also launched "Half Life 2" for PcCDRom, a videogame with strong online functions and a mechanism for anti-piracy via the Internet connection.

The positive trend in revenue was also the result of the success of a few videogames among those mentioned above in strong growth with respect to the previous year:

Pro Evolution Soccer 4 exceeded 400,000 copies by the end of the previous fiscal year, in fact, becoming the largest-selling videogame in the Italian market of all times, far surpassing the 200,000 copies of Pro Evolution Soccer version 3 sold the previous year and confirming the leadership of Konami in the sports games and particularly in football simulation games. The success of the game is the result of the enormous development of potential and realism transmitted to video gamers but also by the marketing and promotional activity of the group with the excellent support of the published in recent years.

WWE Smackdown vs Raw, boosted by the enormous success of the TV program on the Mediaset and SKY channels, sold more than 120,000 copies in the first half of the year, adding to the 50,000 copies of the previous year's version of the videogame (WWE Smackdown: Here comes the pain), versus 30,000 total copies sold the previous year.

Confirming the success of videogames linked to the box-office successes of Disney during the Christmas period, the videogame "The Incredibles" sold more than 80,000 units in 2004, against the exceptional sales of "Searching for Nemo" (50,000 units sold during Christmas the previous year).

Average pricing

Amounts in €	1st half 2004-05	1st half 2003-04	Change
Nintendo Gameboy Advance	28.2	30.6	-8%
Sony Playstation	12.6	18.2	-31%
Sony Playstation 2	36.7	38.3	-4%
Game Cube	28.4	40.3	-29%
X-Box	35.5	39.9	-11%
Total Distribution consoles	33.8	36.3	-7%

Percentage breakdown of sales by console type

Amounts in €	1st half 2004-05	1st half 2003-04	Change
Nintendo Gameboy Advance	11%	5%	6%
Sony Playstation 2	1%	4%	-3%
Sony Playstation 2	79%	79%	0%
Game Cube	1%	2%	-1%
X-Box	8%	9%	-1%

The growth in videogame sales for the Nintendo Gameboy Advance console was the most significant. The portable console definitely benefited from revitalization obtained through the launch of the GameBoy Advance SP version in spring 2003. Sales of this segment rose by 190%, in fact, due to an increase in quantities sold (+215%), only partially offset by an 8% decrease in average selling price.

Sales of videogames for the Microsoft Xbox platform were relatively good (+17%), with volumes up by 31% and prices down by 11%. It was a negative half-year for the sales of videogames for the Nintendo Gamecube console, with declining growth rates in revenue despite an 18% increase in units sold. In any case, the volume sold was of little significance: 1% of the total sales for the console segment.

The revenue from sales of videogames for personal computer (PCCDRom) declined by €572 thousand, from € 5,721 thousand to € 5,149 thousand in the first half of 2003-04. This performance is in line with market trends for the segment, which has been showing slightly negative growth margins, unlike the console videogames market. This figure should also be viewed in light of the strong growth the group registered in the past year: 182% more than in 2002-03.

Revenue from the international publishing of videogames reached €1,434 million for the six-month period, the result of revitalized group activity in the segment. Commercial activity rebounded during the year, in fact, following revival of the videogame selection process during the second half of the previous fiscal year. The following new titles were launched by the group during the six-month period: "Energy Airforce: Aim Strike" (*sequel* of Energy Airforce published the previous year), "Bujingay Swordmaster", as well as six titles in economical line Simply 20.

The revenue from the online gaming activity derives from membership subscriptions by players to the three games launched Europe-wide by the Digital Bros group: “Legend of Mir”, “Myth of Soma” and “Horizon: Empire of Istaria”. The revenues rose with respect to the previous year due primarily to the launch of the new online game “Horizon Empire of Istaria” in January 2004, from €321 thousand in the first half of 2003-04 to €420 thousand (+31%) in the six months just ended.

The revenue from interactive TV decreased by 23%, from €410 thousand to €314 thousand, due primarily to a decrease in advertising revenue.

Foreign revenues

The revenue registered by the group outside Italy increased from €593 thousand (equal to 1.2% of the total) to €2,144 thousand in the first six months of the current fiscal year (equal to 3.5% of total consolidated revenue).

<i>€ thousands</i>	1st half 2004-05	1st half 2003-04
Revenue Italy	58,733	47,920
Revenue rest of EU	1,835	593
Revenue rest of world	309	0
Total consolidated revenue	60,877	48,513

The increase was attributable primarily to the reactivation of international publishing activity, absent in the previous fiscal year, with an increase of €1,434 thousand, as shown in the following table:

<i>€ thousands</i>	1st half 2004-05	1st half 2003-04
Digital TV and advertising	310	284
Online Gaming	400	309
International Publishing	1,434	0
Total revenues outside Italy	2,144	593

Profit margins

The positive trend in revenue is also reflected in the profit margins, at both the consolidated and parent company levels.

Group profit indices:

<i>€thousands</i>	1st half 2004-05	1st half 2003-04	Change	
Sales revenue	60,877	48,513	12,364	25%
EBITDA	8,546	5,519	3,027	55%
EBIT	5,983	2,345	3,638	155%
EBT	3,750	(2,918)	6,668	

Parent company profit indices:

<i>€thousands</i>	1st half 2004-05	1st half 2003-04	Change	
Sales revenue	60,234	47,785	12,449	26%
EBITDA	9,209	5,691	3,518	62%
EBIT	6,655	2,139	4,516	211%
EBT	3,742	(10,889)	14,631	

The improvement in the three principal profit indicators—EBITDA (earnings before interest, taxes, depreciation/amortization and extraordinary items), EBIT (earnings before interest, taxes and extraordinary items) and EBT (earnings before taxes)—was €3 million, €4.5 million, and €6.7 million greater than the respective results for the first six-month of last year. This increase in margins can be traced to an increase in margin percentages and a better production cost structure. The value added, in fact, increased from 27% to 29% of total consolidated revenue and increased in absolute value by €4.5 million.

The increased percentage of value added was the result of two separate factors:

- the publishing activities return much higher margins than the distribution of videogames in Italy, particularly evident in value added terms. The company, in fact, reports the costs of purchasing licenses among deferred charges and not as selling costs, in line with the accounting principles used.
- the commercial policy adopted by the Halifax division that pays larger contributions to mass retailers but against an increase in list prices. Thus the percentage increase in value added is absorbed by a greater incidence of production costs classified as services acquired.

Profit margins by business area

The breakdown of profit margins by type of activity is as follows:

Earnings before interest, depreciation, taxes and amortization (EBITDA)

€thousands	1st half 2004-05	1st half 2003-04	Change	Sales	EBITDA %
EBITDA Distribution	7,981	6,084	1,897	58,709	13.6%
EBITDA Publishing	985	0	985	1,434	68.7%
EBITDA Digital TV	(261)	(147)	(114)	314	-83.1%
EBITDA Online Gaming	(159)	(94)	(65)	420	-37.9%
EBITDA Consolidated	8,546	5,843	2,703	60,877	14.04%
Nonrecurring items	0	(324)	324		
Consolidated EBITDA	8,546	5,519	3,027	60,877	14.04%

The EBITDA percentage for the distribution segment was 13.6% of revenue, up 53% from the level of the first half of 2003-04.

The EBITDA percentage for international publishing of videogames was quite high compared to revenue (68.7%), since a significant part of the costs related to the amortization of license costs. The EBITDA of the segment represents 11.5% of total consolidated EBITDA.

The EBITDA values for the Digital TV and Online Gaming segments remained negative and slightly worse.

Earnings before interest and taxes (EBIT)

€thousands	1st half 2004-05	1st half 2003-04	Change	Sales	EBIT %
EBIT distribution	6,148	3,544	2,604	58,709	10.5%
EBIT publishing	435	0	435	1,434	30.3%
EBIT Digital TV	(292)	(178)	(114)	314	-93.0%
EBIT Online Gaming	(309)	(331)	22	420	-73.6%
Consolidated EBIT	5,982	3,035	2,947	60,877	9.83%
Nonrecurring items	0	(690)	690		
Consolidated EBIT	5,982	2,345	3,637	60,877	9.83%

The significant increase in group EBIT, equal to €2,947 thousand (from €3,035 thousand the previous year to the current €5,982 thousand), was due almost entirely to the improvement in the distribution and publishing sectors €2,604 thousand and €435 thousand, respectively).

Although the effect of amortization reduces the EBIT percentage on publishing revenue from 68.7% (EBITDA/revenue) to 30.3%, this percentage is still strong and bodes well for full-year revenue for the segment.

The amortization of videogame license acquisition costs for on-line gaming was completed during the period, enabling the sector to show a slight improvement of €22 million despite the negative EBIT of €309 thousand.

Costs of raw materials, ancillaries, consumables and goods for resale

Since the distribution of videogames in Italy accounted for almost all group activity in the six-month period, the purchase of materials, consisting almost exclusively of goods for resale, is an extremely significant item.

<i>€thousands</i>	1st half 2004-05		1st half 2003-04	
Total revenue from videogame sales (a)	60,143	100%	47,782	100%
Purchase of materials	(44,290)		(37,244)	
Change in inventories	1,632		2,363	
Total Cost of goods sold (b)	(42,658)	(71%)	(34,881)	(73%)
Value added (a)-(b)	17,485	29%	12,901	27%

Value added increased by 35.5%, from €12,901 thousand in the first six months of last year to the current €17,485 thousand. As a percentage of total revenue from videogame sales, it increased from 27% (H1 2003-04) to 29% (H1 2004-05).

This increase in the percentage of value added derived from just two factors:

- the publishing activity has margin percentages much higher than the videogame distribution in Italy, and this is rather evident in value added terms. The company, in fact, reports the costs of purchasing licenses among deferred charges and not as selling costs, in line with the accounting principles in effect.
- the commercial policy adopted by the Halifax division that pays larger contributions to mass retailers but against an increase in list prices. As a result, the percentage increase in value added is absorbed by a higher incidence of production costs, classified as costs for services.

Costs for services

The detail of costs for services, compared with the corresponding period of the previous year, is the following:

<i>€ thousands</i>	31/12/2004	31/12/2003	Difference	%
Advertising, marketing, shows and exhibitions	2,956	2,314	642	27.7%
Commissions and accessory charges	1,114	825	289	35.0%
Shipping and freight	617	526	91	17.3%
Sub-total of sales-related services	4,687	3,665	1,022	27.9%
Royalties	95	55	40	72.7%
Licenses and Costs of online gaming	195	202	(7)	-3.5%
Sub-total purchase-related services	290	257	33	12.8%
Insurance	82	72	10	13.9%
Consulting, legal, notary	547	390	157	40.3%
Postal and telecom	53	63	(10)	-15.9%
Travel and per diem	112	56	56	100.0%
Utilities	71	50	21	42.0%
Temporary work services	65	115	(50)	-43.5%
Maintenance	26	21	5	23.8%
Compensation of governance bodies	334	387	(53)	-13.7%
Other general & administrative expenses	335	304	31	10.2%
Satellite connection	637	644	(7)	-1.1%
Sub-total general services	2,262	2,102	160	7.6%
Total costs for services	7,239	6,024	1,215	20.2%

The total costs of services increased by €1,215 thousand, from €6,024 thousand in H1 2003-04 to €7,239 thousand in the period just ended.

In particular, the increase in the costs for sales-related services, shown in the table as a sub-total, was €1,022 thousand, 27.9% more than the same period the previous year. This increase is in line with the 23% increase in group revenue and is due primarily to savings on shipping and freight, which varies according to the number of shipments rather than the revenue generated, offset by an increase in advertising and marketing, which includes the non-contractual contribution linked to the increase discussed in the value added analysis.

There was a significant increase in commissions (€289 thousand or +35%) due to increased revenue in the traditional retail channel, which assigns higher commission rates to the sales network. The percentage increase in revenue from the traditional retail channel is in line with the new contracts signed with Electronic Arts, Activision and Vivendi, which provide exclusivity precisely in this sales channel.

The total costs for general services rose by €160 thousand or 7.6%, from €2,102 thousand to €2,262 thousand in H1 2004-05. In particular, the most significant increase was in the item "consulting", because of:

- consulting for the preparation of all the legal documentation for the new offices and the logistics center (fire-prevention plans, 626 safety regulations, etc.)
- consulting on the international publishing products, which require localization and translation costs
- an increase in project-based consulting costs designed to reduce the cost of temporary workers.

Costs for using third-party assets

These declined by €80 thousand, from €252 in H1 2003-04 thousand to €172 thousand, due primarily to a reduction in the rent of the Trezzano sul Naviglio warehouse, purchased during the period.

Personnel-related expense

The detail of personnel costs and the calculation of average annual cost is the following:

<i>€ thousands</i>	1st half 2004-05	1st half 2003-04	Difference	%
Salaries and wages	1,436	1,156	280	16%
Payroll contributions	445	426	19	27%
Staff severance indemnity	97	96	1	1%
Total personnel costs	1,978	1,678	300	18%
Average number of employees	87	83	4	5%
Average annual cost per employee	45.5	40.4	5.04	12%

The increase of €300 thousand in total personnel costs, +18% on an annual basis, is attributable to an increase in the number of employees, from 83 last year to the current 87, and to a 12% increase in the average annual cost of personnel due to a few *ad personam* increases, along with bonuses for achieving company objectives, paid chiefly to the sales department.

Provisions

These reached €897 thousand due to:

- the allocation to cover losses on a currency hedging derivative for a total value of €700 thousand;
- the recognition of €816 thousand in losses on advances paid to a supplier currently in pre-bankruptcy proceedings;
- allocation of € 11 thousand to the provision for supplemental agents' customer indemnity.

Other operating expenses

These decreased by € 83 thousand, from €487 thousand in H1 2003-04 to the current €404 thousand. This item is composed primarily of banking charges, factoring commissions and surveillance, office cleaning and condominium charges.

Analysis of net working capital and net financial position

Changes in net working capital

The videogame distribution activity is highly seasonal, due to the greater propensity of consumers to purchase games in autumn and winter. To provide a clear presentation of this line item, and explain the effects that led to a change in net working capital, the balance sheet figures for the current year must be compared to those at the same day of the previous year:

<i>€ thousands</i>	31December 2004	31December 2003	30 June 2004
Inventories	20,304	17,980	18,672
Trade receivables	29,214	22,967	18,545
Other current receivables	2,975	1,365	2,404
Prepaid expense and accrued income	319	564	402
Payments on account by customers	(271)	0	0
Trade payables	(9,398)	(7,060)	(7,495)
Other current payables	(1,322)	(2,474)	(2,907)
Accrued expense and deferred income	(1,428)	(588)	(754)
Net Working Capital	40,393	32,754	28,867

The increase of €7,639 million in net working capital (+23.3% compared to the same period of the previous year) is associated primarily legato with increases of €6,247 thousand in receivables (+27% compared to the previous year) and of €2,324 thousand in inventories (+13% compared to the previous year).

The company made extensive use of factoring without recourse during the year and some had not been collected at the reporting date. To verify the results in relation to the increased sales, therefore, the following table should be analyzed:

<i>€ thousands</i>	31December 2004	31December 2003	Changes	
Trade receivables	29,214	22,967	6,247	27%
Trade receivables factored w/o recourse	11,357	9,992	1,365	14%
Total trade receivables	40,571	32,959	7,612	23%

The effect of the foregoing would be to further increase the change in net working capital from € 1,365 thousand to €9,004 thousand:

<i>€ thousands</i>	31December 2004	31December 2003	Changes	
Net Working Capital	40,393	32,754	7,639	23%
Trade receivables factored w/o recourse	11,357	9,992	1,365	14%
Total adjusted NWC	51,750	42,746	9,004	21%

The changes in inventories, particularly for the parent company, were not strictly linked to volume as much as to the number of publishers represented exclusively in Italy. Two new distribution agreements were stipulated during the year, with Activision Italia and Vivendi Universal Games. Those agreements, along with renewal of the agreement with Electronic Arts, were transferred to a new group division known as Distribution Trade Italia (hereinafter "DTI") with a sales network separate from the traditional sales network that distributes the Halifax products.

The three contracts have in common the fact that the three videogame publishers have a direct presence in Italy, with a marketing structure and autonomous sales network. The distribution services provided by DTI are therefore limited to the traditional retail channel, with exclusion of mass retailers, and consist of order management, point-of-sale marketing, shipping, and collections. The three contracts provide for partial protection against obsolescence, though with different procedures. Inventories should therefore be analyzed separating the Halifax inventories, where the group sustains all the obsolescence risk, from the DTI inventories, where the obsolescence risk is limited.

An analysis of inventories by category, Halifax and DTI, shows the following:

<i>€ thousands</i>	31December 2004	31December 2003	Change	
Halifax inventories	13,792	13,818	(26)	0%
DTI inventories	6,512	4,162	2,350	56%
Total inventories	20,304	17,980	2,324	13%

Changes in net financial position

Thanks to the positive profit results, net financial debt was kept in line with the level at 31 December 2003, despite the intensified investment activity (see below). Net financial debt was € 22,398 thousand, in fact, only slightly higher (€51 thousand) than the €22,347 thousand reported at 31 December 2003. The following table provides a breakdown between asset and liability items by current/non-current:

€ thousands	31December 2004	31December 2003	30 June 2004
Securities not carried as non-current assets	2,680	3,502	3,390
Cash and cash equivalents	1,529	1,835	1,715
Bank debt - current	(22,564)	(25,345)	(18,711)
Convertible bonds - current	(2,170)	0	0
Amounts owed to other lenders - current	(96)	(169)	(168)
Net current financial position	(20,621)	(20,177)	(13,774)
Amounts owed to other lenders - non-current	(1,777)	0	0
Convertible bonds	0	(2,170)	(2,170)
Net non-current financial position	(1,777)	(2,170)	(2,170)
Final net financial position	(22,398)	(22,347)	(15,944)

Indebtedness at 31 December 2004 increased by €6,454 thousand with respect to the same figure at 30 June 2004. This is explained by the cycle of distribution activity, which requires an investment in net working capital to maintain inventories of finished goods being released and/or recently launched, along with the granting of credit to customers and is directly related to sales. The variable investment in net working capital during the year due to the seasonality is reflected directly in the course of indebtedness, which reaches maximum exposure right at the end of the calendar year. The investment in net working capital then declines due to payments from customers and reduced inventories during the first half of the calendar year, usually reaching the minimum in August, when the group's level of indebtedness is lowest.

Investments during the period

Investment activity during the six-month period was highly intense, in line with the group strategy to launch the international videogame publishing activity, exploiting synergies with the Italian distribution structure.

During the six months, in fact, the group invested in the new logistics center by purchasing a building of 3,400 m² with an adjoining courtyard of 2,000 m². The property was purchased at extremely interesting conditions (€ 710/m²), considering that it is located in Trezzano sul Naviglio (MI), close to the Milan-Abbiategrasso rail line and not far from the rail station of Gaggiano (MI). The purchase was funded through a finance lease with a residual debt of €1,873 thousand, classified among "amounts owed to other lenders".

Also during the period the first development stage of the new operating system based on Microsoft Business Solutions - Navision was completed.

The group invested a total of € 3,661 thousand during the period, as better detailed in the following table:

<i>€ thousands</i>	1st half 2004-05	1st half 2003-04
International videogame licenses	1,028	351
Purchase of warehouse in Trezzano	2,516	0
Other investments	117	332
Total investments	3,661	683

No investments were made in non-current financial assets.

Events after the balance sheet date

On 23 March 2005 Société Générale converted 800 convertible bonds valued at €800,000 into 254,777 Digital Bros common shares, equal to 1.86% of the post-conversion share capital.

After this conversion, the residual bond loan is not equal to 1,370 bonds with a value of €1,370 thousand, and the number of Digital Bros common shares in circulation has increased to 13,724,922.

Outlook

Due to the excellent business performance in the first half of the fiscal year, management is able to confirm the forecasts for the current fiscal year:

<i>€ thousands</i>	Budget 2004-05	FY 2003-04	Change	
Sales revenue	87,146	84,804	2,342	3%
EBITDA	7,379	8,908	(1,529)	-17%
EBIT	5,351	4,225	1,126	27%
Net earnings	1,801	457	1,344	294%

Information on compliance with the recommendations contained in the Corporate Governance Code for companies listed pursuant to Section IA.2.12 of the Instructions for the Nuovo Mercato regulations

Digital Bros S.p.A., as parent company, adopted the Corporate Governance Code for listed companies, prior to admission to listing on the Nuovo Mercato, thus completing the regulatory and self-discipline framework introduced by Legislative Decree 58 of 24 February 1998, implemented by CONSOB with resolution 11971 of 14 May 1999 as subsequently amended.

Compliance includes implementation of the following principles of the Code: provision in the bylaws ensuring that one member of the Statutory Audit Committee is elected by the minority shareholders; the presence non-executive members on the Board of Directors, including independent directors; creation of an Internal Control Committee and a Compensation Committee for managing directors and those assigned special duties; designation of a specific function for managing relations with shareholders; Code of Conduct for internal dealing; introduction of a system of variable compensation (stock option plan) for directors and employees, as well as adoption of rules of procedure for shareholders' meetings.

The overall framework of the company's corporate governance is in compliance with the recommendations and rules contained in the Corporate Governance Code and is based on documented organizational procedures, particularly the following:

- the Board of Directors usually meets eight times a year to examine operational performance in the various business areas, the final quarterly results, the strategic plans, and significant transactions presented by the executive directors
- the Board currently in office is composed of eight directors, two of whom (chairman and managing director) are assigned executive powers
- the chairman and managing director constantly present for Board approval all transactions of particular economic and financial importance, even though the powers delegated to them are ample in nature
- the Board has instituted two internal committees. The Internal Control Committee, formed of two outside non-executive directors (Bruno Soresina, Sergio Treves), and Compensation and Appointment Committee, composed of two non-executive directors (Davide Galante, Dario Treves)
- an Investor Relations function is operational, under the responsibility of the chairman. One function of this structure, directed by a manager, is to maintain relations with institutional investors. It also fulfills the obligations of market disclosure deriving from the presence of price-sensitive information, in full compliance with the existing law and regulations, assigning particular importance to the problem of symmetrical information

dissemination.

Relations with related parties

As required by CONSOB communications DAC/RM/97001574 of 20 February 1997 and DAC/98015373 of 27 February 1998, we declare that the commercial and financial relations of the Digital Bros group companies with their direct and indirect subsidiaries, and with associated non-subsidiary companies, are governed by normal market conditions.

These relations at 31 December 2004 can be summarized as follows:

<i>€ thousands</i>	Assets	Liabilities
Receivables/(Payables) Eon/Twine	3,636	(3,069)
Receivables/(Payables) Game Network Ltd	4	0

Not revenue or expenses with related parties were reported during the period.

The only relation between the group companies and associated non-subsidiary parties is the commitment of Abramo and Raffaele Galante to repay the debt of Services 5 S.r.l. (formerly No Pay S.r.l.) to Digital Bros S.p.A.

The parent company boasts a residual credit of €2,437 thousand toward Servizi 5 S.r.l. Abramo and Raffaele Galante, chairman and managing director of Digital Bros S.p.A., respectively, when they sold their interest in Servizi 5 S.r.l. to third parties on 9 October 2003, guaranteed repayment of the credit through a quarterly repayment plan that contemplates payment of 30% by 30 September 2005 and the balance by 30 June 2007.

This proposal was discussed and approved by the Board of Directors of Digital Bros S.p.A. with the abstention of Abramo and Raffaele Galante from the voting.

Due to the aforesaid sale of shares, which terminated the relationship with Servizi 5 S.r.l., and excluding the repayment plan described above, there are no other relations with related parties, transactions or contracts, that can be considered significant in value or conditions insofar as the materiality of their effects are concerned.

R&D activity

The group conducted no R&D activity.

Group secondary offices

The Group operated during the period through the following facilities:

Company	Location	Activity
Digital Bros S.p.A.	Via Bisceglie 76 - Milan	Offices
Digital Bros S.p.A.	Via Petrella - Trezzano S/N (MI)	Warehouse
Game Network S.r.l.	Via Bisceglie 76 - Milan	Offices, production
Ad1 S.r.l.	Via Bisceglie 76 - Milan	Offices
Game Network On Line S.r.l.	Via Bisceglie 76 - Milan	Offices
Game Service S.r.l.	Via Bisceglie 76 - Milan	Offices

Investments held by directors and statutory auditors

Pursuant to CONSOB 11971/99 and subsequent modifications, we list below the investments held by directors, while no investments are held by members of the Statutory Audit Committee.

Full name	Investee company	No. of shares held at 30/06/04	No. of shares purchased	No. of shares sold	No. of shares held at 31/12/04
Abramo Galante	Digital Bros S.p.A.	4,651,995	0	0	4,651,995
Raffaele Galante	Digital Bros S.p.A.	4,678,736	0	0	4,678,736
Davide Galante	Digital Bros S.p.A.	253,728	0	0	253,728
Sem Moioli	Digital Bros S.p.A.	320,000	0	49,000	271,000

In name and on behalf of the Board of Directors

The Chairman

(Abramo Galante)

DIGITAL BROS S.p.A.

EXPLANATORY NOTES TO THE CONSOLIDATED SIX-MONTH REPORT AT 31 DECEMBER 2004

Preface

The explanatory notes to the Consolidated Six-month Report at 31 December 2004 of Digital Bros S.p.A. and the companies directly controlled by it was prepared in accordance with Legislative Decree 127 of 9 April 1991, as subsequently amended.

The six-month report at 31 December 2004 consists of a consolidated balance sheet, consolidated income statement, consolidated cash flow statement, and these explanatory notes and is accompanied by a report on the operations of the Digital Bros group.

The explanatory notes include a schedule of reconciliation between the shareholders' equity and net result of the parent company and the same items of the consolidated six-month situation.

No situations occurred which would require application of the derogation under Article 2423.4 of the Civil Code.

The shareholders of Digital Bros S.p.A., meeting in special session on 23 September 2004, and the shareholder of the subsidiaries indicated below, meeting in special session, approved modifications to their respective bylaws to conform to the organic reform of the law governing stock-held companies and cooperatives.

Business activities

The principal object of the Group is the distribution and marketing of videogames, primarily through the traditional retail channel but also through such media as digital television and the Internet.

Please refer to the Board of Directors Report for comments on the economic and financial performance and the various sectors in which the group operates, events after the balance sheet date, and relations with unconsolidated subsidiaries and associated companies and relations with related entities.

Presentation criteria

The financial statements conform to the requirements set forth in the Italian Civil Code. The structure of the balance sheet is established by Article 2424 of the Civil Code and that of the income statement by Article 2425 of the Civil Code.

Scope of consolidation

The subsidiaries included in the scope of consolidation at 31 December 2004 are:

Company name	Head offices	Currency of account	Capital	% of control	Method
Digital Bros S.p.A.	Milan	euros	5,388,058	Parent company	Full-line
Game Network On Line S.r.l.	Milan	euros	100,000	100.0%	Full-line
Game Network S.r.l.	Milan	euros	100,000	100.0%	Full-line
Ad1 S.r.l. (1)	Milan	euros	10,000	100.0%	Full-line
Game Service S.r.l.	Milan	euros	50,000	100.0%	Full-line

(1) Wholly-owned subsidiary of subsidiary Game Network S.p.A.

All the companies included in the scope of consolidation close their fiscal years on 30 June each year and are therefore homogeneous with the statutory closing of the parent company.

The three British companies Twine Holdings Ltd., Eon Digital Entertainment Ltd. and Game Network Ltd., though still subsidiaries at the reporting date, were excluded from the scope of consolidation because they have been placed in voluntary liquidation.

Preparation and Consolidation principles

The structures of the balance sheet and income statement are those specified in Legislative Decree 127/91. The consolidated six-month report was prepared in conformity with Article 29 of that Decree.

For purposes of the six-month report, the following were eliminated:

- the carrying value of investments in companies included in the scope of consolidation and the corresponding portions of their respective shareholders' equity
- expense and income generated by intragroup transactions
- intragroup receivables and payables
- gains and losses deriving from intragroup transactions.

The assets and liabilities of the companies are consolidated by the full-line method, assuming the entire amount of assets and liabilities of the individual companies, regardless of the portion of ownership.

Valuation criteria

The items were valued according the general criteria of prudence and time-accrual with the prospect of ongoing operations, homogeneous with respect to the six-month report at 31 December 2003 and the financial statements for the fiscal year ended 30 June 2004.

Applying the principle of prudence required the individual valuation of components of the individual asset and liability line items, to avoid offsetting between losses that must be recognized and gains that cannot be recognized because they are unrealized.

In conformity with the accrual basis, the effect of transactions and other events was recognized and attributed in the year to which the transaction and events refer.

The accounting principles followed are those, compatible with law, prepared by the Consiglio Nazionale dei Dottori Commercialisti e Ragionieri and indicated by CONSOB as a reference for interpreting the Civil Code.

Intangible assets

Intangible assets are reported at historical purchase cost including directly imputable accessory charges less the amounts of amortization. The amortization rates used were not modified with respect to prior years.

Organization and development costs were capitalized with the consensus of the Statutory Audit Committee and consist primarily of expenses sustained for listing on the Nuovo Mercato, regulated and organized by Borsa Italiana S.p.A. The costs are amortized over five years, in line with the projected useful life of the assets to which they refer, using the straight-line method.

The costs deriving from the issue of convertible bonds during the past year were reported under this caption and were amortized based on the ratio between bonds converted at the reporting date and the bonds issued at subscription.

Effective 1 July 2004, the criterion for valuing international videogame licenses was modified. The new criterion requires that when a product is launched in the market the relative license must be completely amortized, with the sole exception of the unit cost of the license affecting

uncompleted orders for the product conformed at the balance sheet date. The criterion adopted until the end of the previous fiscal year called for an estimate of the salability of products subject to license, so the unit license costs for products already launched in the market for which sales were projected in future periods were not amortized.

Trademarks are amortized over ten years using the straight-line method.

Leasehold improvements are amortized over the residual duration of the respective leases using the straight-line method.

The other intangible assets are amortized over five years using the straight-line method.

Property, plant and equipment

Property, plant and equipment are reported at purchase cost, including directly attributable accessory charges, and are adjusted by corresponding accumulated depreciation. The depreciation rates used were not modified with respect to prior years.

Property, plant and equipment were not subject to revaluation.

Depreciation was computed systematically using the straight-line method, determined applying the maximum rates allowed by specific decrees of the Finance Ministry, as they were deemed to suitably represent the residual lives of the assets.

The depreciation begins in the year the asset becomes operational.

To correctly estimate the residual lives of production assets, the rates were halved for the first year of utilization.

Leased assets

To better link the accounting principles used in preparing this six-month situation to what will be implemented beginning next year, the principles of IAS 17 were applied to finance leases stipulated after 1 July 2004.

Financial assets not carried as non-current assets

Securities representing temporary investments in mutual fund shares were valued at the lower of historical cost and current value at the end of the period.

The costing method used was specific cost.

Receivables and payables

Receivables are reported at presumable collection value. The face value of receivables is adjusted to presumed collection value by means of the bad debt provision, considering the general and industry-specific economic conditions and the specific situation of individual debtors.

Receivables factored without recourse are deducted from total trade receivables if actually sold at the reporting date. The amount owed by the factor is booked at the same time, net of any advances received.

Payables are reported at face value.

Own shares

Own shares are reported at purchase cost, reduced for any impairment losses; the costing method is average cost. Pursuant to Article 2357 ter of the Civil Code, an unavailable equity reserve is booked against this item for an amount equal to the carrying value.

Cash and cash equivalents and amounts owed to banks

Cash and cash equivalents are reported at face value, in line with presumed realizable value.

The amounts owed to banks are reported at face value.

Inventories

Finished goods are reported at the lower of purchase cost and net realizable value. The costing method used is specific cost.

Write-downs of inventories are booked against the individual items when the net realizable value is lower than purchase cost and/or the net realizable value in the previous period and are charged directly against the unit carrying values of the individual items. An inventory obsolescence provisions was created to adjust the value of inventories, intended to cover potential losses that might emerge due to overestimates of the market values of slow-moving items.

Staff Severance Indemnity Fund (TFR)

This represents the actual liability accrued toward employees in conformity with law and collective labor contracts in effect, considering all forms of continuous compensation.

Accruals and deferrals

Accruals and deferrals are determined so as to attribute to the reporting period the portion of income and expense common to two or more years, in accordance with accrual-based accounting principles.

In particular, accrued income and expense refer to revenue and costs pertaining to the period but actually paid or received in subsequent periods; the prepaid expense and deferred income relate to portions of revenue and costs recognized during the year but pertaining to future periods.

Provisions

The provisions refer to liabilities of a certain or probable nature but for which the exact amount or timing were uncertain at the balance sheet date. The amounts prudently set aside were reported in the income statement under "allocations to provisions" or, alternatively, under "impairment losses on financial assets".

Derivative contracts

Derivative instruments used to hedge interest rate and exchange rate risks are valued consistent with the valuation of the relative assets and liabilities, charging any net expenses, determined for each transaction, to the income statement.

Off-balance sheet items

Guarantees granted and other commitments are reported off-balance sheet in the amounts corresponding to the actual exposure of the company at the reporting date.

Costs and revenue

The costs, losses, revenue and gains are recognized on an accrual basis. Revenue from the sale of products are recognized when title to the goods is transferred, normally coinciding with delivery or shipment. Revenue and gains, costs and losses are reported net of returns, premiums, discounts and allowances, as well as taxes directly related to the sale of products and rendering of services.

Deferred taxes

Deferred and prepaid taxes are computed based on the tax rate applicable in the periods in which the fiscal effect is assumed to be manifested. Deferred tax assets were accounted for as increases to "credits for prepaid taxes" on the balance sheet. Deferred tax assets were reported since their recovery is reasonable certain.

Criteria for translating values expressed in foreign currencies

Receivables and payables in currencies outside the Eurozone are accounted for at the exchange rate on the transaction date. If a potential liability emerges between the translation of assets and liabilities at the current exchange rate and the presentation rate, it is adjusted to the exchange rate at the balance sheet date.

Extraordinary income and expense

Extraordinary income and expense are items that arise from events or transactions that are clearly distinct from ordinary operating activities.

Schedule reconciling the net result and equity of the parent company with the equivalent consolidated data

Schedule reconciling the equity and net result of the parent with the equivalent consolidated data		
	Shareholders' Equity	Net result
Shareholders' equity and net result as shown in the separate financial statements of the parent company	24,422	3,739
<i>Elimination of the carrying value of investments in consolidated companies:</i>		
results of consolidated companies	(692)	(692)
<i>Elimination of the effects of transactions between consolidated companies:</i>		
elimination of intragroup transactions	0	0
impairment losses on investments in consolidated companies due to net losses	700	700
<i>Other adjustments:</i>		
adjustment due to application of IAS 17	3	3
change in the profits of prior years	8	0
other adjustments	(1)	(1)
Group portion of equity and net result	24,442	3,749

Information on the balance sheet

ASSETS

Intangible assets

The intangible assets at the reporting date were composed of:

€ thousands	31 Dec 2004	30 Jun 2004	Change
Organization and expansion costs	386	659	(273)
Concessions, licenses, trademarks and similar rights	947	714	233
Goodwill	0	467	(467)
Consolidation difference	0	0	0
Assets in process and prepayments	922	909	13
Other	80	76	4
Total net intangible assets	2,335	2,825	(490)

The principal movements in the individual items with respect to the opening balances:

€ thousands	Organization and expansion	Licenses & trademarks	Goodwill	Intangibles in process	Other	Total
Balancers at 30 June 2004	659	714	467	909	76	2,825
Increases during the period	3	1,476	0	861	28	2,368
Decreases during the period	0	0	(467)	(848)	0	(1,315)
Amortization for the period	(276)	(1,243)	0	0	(24)	(1,543)
Balancers at 31 Dec 2004	386	947	0	922	80	2,335

Organization and expansion costs were capitalized with the consent of the Statutory Audit Committee and consist of expenses sustained for admission to listing on the Nuovo Mercato regulated by Borsa Italiana, recognized in 2000, along with the costs sustained for issuing convertible bonds in 2002.

The increase in licenses and trademarks (€1,476 thousand) was the result of:

- purchases of international videogame licenses utilized during the period (€ 955 thousand);
- purchases of automation software licenses (€54 thousand);
- restatement of goodwill under trademarks for the Game Network trademark, for which the goodwill was cancelled (€467 thousand).

The increase in assets in process (€861 thousand) consisted of prepayments to acquire the rights to exploit international user licenses for videogames planned for launching in the second half of the current fiscal year or thereafter.

The decrease of in assets in process consists primarily of the use of right to exploit user licenses on videogames, following their launch in the first half of the year.

Property, plant and equipment

Net property, plant and equipment at the reporting date consisted of:

<i>€ thousands</i>	31 Dec 2004	30 Jun 2004	Change
Land and buildings	2,946	455	2,491
Plant and machinery	3	6	(3)
Industrial and commercial equipment	448	450	(2)
Other assets	3	1	2
Total net property, plant and equipment	3,400	912	2,488

Gross property, plant and equipment at the reporting date consisted of:

<i>€ thousands</i>	31 Dec 2004	30 Jun 2004	Change
Land and buildings	3,132	553	2,579
Plant and machinery	14	100	(86)
Industrial and commercial equipment	1,556	1,463	93
Other assets	29	24	5
Total property, plant and equipment	4,731	2,140	2,591

The relative accumulated depreciation at the reporting date:

<i>€ thousands</i>	31 Dec 2004	30 Jun 2004	Change
Accum. deprec. land and buildings	186	98	88
Accum. deprec. plant & machinery	11	94	(83)
Accum. deprec. industrial & commercial equipment	1,108	1,013	95
Accum. deprec. other assets	26	23	3
Total accum. deprec. property, plant & equipment	1,331	1,228	103

The detail of movements:

<i>€ thousands</i>	Land and buildings	Plant and machinery	Industrial & commercial equipment	Other assets	Total net property, plant & equipment
Assets at 30 June 2004	455	6	450	1	912
Increases during the period	2,579	0	7	5	2,591
Depreciation for the period	(88)	(3)	(9)	(3)	(103)
Assets at 31 Dec 2004	2,946	3	448	3	3,400

The increase relates to the investment in the new group logistics center in Trezzano, concerning the purchase of a building of 3,400 m² and an adjoining courtyard of over 2,000 m².

Non-current financial assets

The value at the reporting date was €44 thousand, consisting entirely of guarantee deposits.

Investments in Twine Holdings Ltd. and Game Network Ltd., placed in voluntary liquidation, as well as in indirect subsidiary Eon Digital Entertainment Ltd., were completely written off to align them to liquidation equity, as no further potential liabilities exist that would require provisions beyond the amount already reported in the financial statements.

Inventories of finished goods

The inventories at 31 December 2004 consisted of:

<i>€ thousands</i>	31 Dec 2004	30 Jun 2004	Change
Halifax inventories	14,126	15,674	(1,548)
Obsolescence provision	(334)	(334)	(0)
Inventories sub-total	13,792	15,340	(1,548)
DTI inventories	6,512	3,332	3,180
Total inventories	20,304	18,672	1,632

Inventory movements, particularly for the parent company, were not strictly associated with volume sold as much as with the number of *publishers* exclusively represented in Italy. Two new distribution agreements were stipulated during the year, with Activision Italia and Vivendi Universal Games. Those agreements, along with renewal of the agreement with Electronic Arts, were reallocated to a new group division known as Distribution Trade Italia (hereinafter "DTI") with a sales network separate from the traditional retail sales network that distributes the Halifax products.

The three contracts have in common the fact that the three videogame publishers have a direct presence in Italy, with a marketing structure and autonomous sales network. The distribution services provided by DTI are therefore limited to distribution in the traditional retail channel,

with the exclusion of mass retailers, and consist of order management, marketing activity at the outlets served, shipping and collections. The three contracts provide for partial protection against obsolescence, though with different procedures. Inventories should therefore be analyzed separating the Halifax inventories, where the group sustains all the obsolescence risk, from the DTI inventories, where the obsolescence risk is limited.

Trade receivables - current

Current trade receivables increased by €8,929 thousand over the level at 30 June 2004 due to the greater sales volume during the period, particularly in the last quarter of the calendar year:

<i>€thousands</i>	31 Dec 2004	30 Jun 2004	Change
Trade receivables - current	28,060	18,958	9,102
Bad debt provision	(586)	(413)	(173)
Total trade receivables	27,474	18,545	8,929

The increase was due in part to an increase of €9,102 thousand in gross receivables net of an increase of €173 thousand in the bad debt provision. The following changes occurred in the bad debt provision:

<i>€thousands</i>	
Bad debt provisions at 30 June 2004	413
Allocations during the period	173
Use of the provision	0
Bad debt provision at 31 December 2004	586

The bad debt provision of €586 thousand at 31 December 2004 is deemed representative of the potential loss on total accounts receivable at the reporting date.

During the period, the group factored €13,011 thousand in receivables without recourse. The total amount of receivables factored without recourse at the reporting date and not yet collected by the factors was €11,357 thousand.

Taxes receivable

Taxes receivable at 31 December 2004 amounted to €308 thousand, €10 thousand less than at the close of the previous period. The amount refers to €294 thousand in prepaid taxes, while the remainder relates to tax refunds deriving from tax declarations in prior years.

The group has not value added tax receivable.

Credits for prepaid taxes

The item "credits for prepaid taxes" is in line with the figure reported at the previous reporting date, equal to €3,491 thousand, of which €1,067 is the current portion and €2,424 thousand is non-current.

These credits were reported in prior years, particularly €3,395 thousand in the previous fiscal year, while recovery is expected to begin this year.

This item was formed considering only a portion of the potential tax saving deriving from tax losses in prior years and from temporary differences that would amount to €6,282 thousand, considering a tax rate of 33%. This determination was made to take into account the profits deriving from future group plans, thus in line with reasonably certain recovery.

€thousands	Taxable base	Tax rate	Amount
Tax losses in prior years	13,204	33%	4,357
Temporary differences	5,833	33%	1,925
Total	19,037	33%	6,282

In particular, the composition of tax losses by year of expiration is as follows:

€thousands	Expiration	Amount
Tax losses from equity contributions	Unlimited	1,245
2001	2006	7,295
2002	2007	266
2003	2008	4,398
Total		13,204

Other receivables - current

Current receivables from others consist of:

<i>€ thousands</i>	31 Dec 2004	30 Jun 2004	Change
Prepayments to suppliers	1,600	1,016	584
Prepayments to suppliers - non-current	118	118	0
Other receivables - non-current	1,718	1,134	584

Non-current receivables

Non-current receivables consist of:

<i>€ thousands</i>	31 Dec 2004	30 Jun 2004	Change
Trade receivables	1,740	2,414	(674)
Amounts due from unconsolidated subsidiaries	3,640	3,639	1
Non-current receivables	5,380	6,053	(673)

Non-current trade receivables consist of the portion owed by Servizi 5 S.r.l. that is collectible beyond 30 June 2005. This credit is secured by guarantees and will be repaid based on a plan described in the Board of Directors Report, in the section regarding relations with related parties.

The amounts due for unconsolidated subsidiaries consist of € 1,248 thousand due from unconsolidated subsidiary Eon Digital Entertainment Ltd. and €2,388 thousand from subsidiary Twine Holdings Ltd., directly adjusted by allocation to a specific provision in the amount of € 3,069 thousand. The remaining € 4 thousand related to amounts due from unconsolidated subsidiary Game Network Ltd.

Prepaid expense and accrued income

The amount of prepaid expense at 31 December 2004 was:

<i>€ thousands</i>	31 Dec 2004	30 Jun 2004	Change
Prepaid telephone charges	0	4	(4)
Prepaid satellite connection	146	40	106
Prepaid insurance premiums	10	33	(23)
Prepaid guarantee charges	57	52	5
Prepaid expense for company-launched products	0	80	(80)
Prepaid lease payments	0	13	(13)
Prepaid contract charges	49	70	(21)
Trade fair stand decorations	0	57	(57)
Other prepaid expense	57	53	4
Total Prepaid expense	319	402	(83)

No accrued income was reported.

LIABILITIES

Shareholders' Equity

The following table details the changes in shareholders' equity for the period:

€ thousands	30 Jun 2004	Appropriation 2003 result	Net profit for the period	31 Dec 2004
Share Capital	5,388	0	0	5,388
Share premium reserve	37,688	0	0	37,688
Legal reserve	258	0	0	258
Own share reserve	97	0	0	97
Conversion reserve	0	0	0	0
Retained earnings (losses)	(23,196)	457	0	(22,739)
Net profit (loss) for the year	457	(457)	3,749	3,749
Total shareholders' equity	20,692	0	3,749	24,441

Since there were no increases in capital, and particularly no conversion of convertible bonds to 31 December 2004, the share capital stock consists of 13,470,145 common shares with a unit par value of €0.40.

The share premium reserve consists of € 36,183 thousand deriving from the capital increase effected for listing on the Nuovo Mercato in October 2000 and the remaining € 1,505 thousand from the issue of new common stock due to conversion of the convertible bonds to date. The total amount of the reserves is available for distribution.

The own share reserve, unchanged with respect to 30 June 2003, was created pursuant to the Civil Code to reflect the purchase of 32,302 Digital Bros common shares during the previous year. The law prevents the distribution of this reserve.

The legal reserve, €258 thousand, was created in prior years by appropriating company profits. This reserve can be distributed within the limits set by law and the company bylaws.

The retained losses of €22,739 thousand have decreased with respect to 30 June 2003 because of a shareholders' resolution that appropriated all the net profit from the past fiscal year (€ 457 thousand) to reduce retained losses.

Provisions

The details of the provisions at the 31 December 2004 are as follows:

€ thousands	31 Dec 2004	30 Jun 2004	Change
Financial credit risk provision	3,255	3,069	186
Derivatives risk provision	1,600	900	700
Agents' supplemental client indemnity provision	56	49	7
Sub-total other provisions	4,911	4,018	893
Tax provision	0	0	0
Total provisions	4,911	4,018	893

The other provisions consist of a credit risk provision of (€3,068 thousand) created to cover potential losses on the receivables of unconsolidated subsidiaries (Twine Holdings Ltd. and Eon Digital Entertainment Ltd., both in voluntary liquidation). The recoverability of these financial receivables depends on the possibility the subsidiaries will collect amounts through outstanding litigation. A bad debt provision was created to take into account new elements that emerged during the past fiscal year: for one lawsuit, the significant reduction in the amount recoverable through a potential settlement; for a second lawsuit, the probable grounds of a few objections advanced by the counterparty to the failure to pay amounts owed to the subsidiaries, and for the third the estimate of legal expenses to be sustained to recover the credit much greater than expected and such as to make pursuit of the litigation anti-economical.

Another provision of €186 thousand on financial credit risks was created against the difficulties of recovering a prepayment to a videogame supplier not in bankruptcy proceedings.

The derivatives risk provision of €1,600 thousand concerns a transaction to hedge dollar-euro exchange rate risk. The potential losses related to a derivative contract to purchase US dollars signed by the company in April 2003 and initially intended to cover the group from remittances that would have to be made to American developer Artifact Entertainment for the license to exploit the online game "Horizons: Empire of Istaria". As a result of the less-than-expected success of the game, the total amount of the derivative contract could no longer be considered a hedging instrument, so the potential loss was reflected on the income statement. To mitigate the financial impact of the loss on this operation, while at the same time causing the maximum loss on the instrument, the foregoing derivative contract was renegotiated with an interest rate swap for a notional value of €20 million. That instrument enables the group to pay a quarterly spread of 2% over 3-month EURIBOR up to a 3-month EURIBOR limit of 5% for the next 5 years; above the 3-month EURIBOR limit of 5% the spread begins to decrease down to zero when a 3-month EURIBOR rate of 7% is reached. The provision will therefore be used in line with expected future remittances.

Staff severance indemnity fund (TFR)

The changes in the staff severance indemnity fund can be detailed as follows:

<i>€ thousands</i>	31 Dec 2004	30 Jun 2004	Change
Staff severance indemnity fund at 30 June 2004	589	480	109
Use of the fund to pay severance indemnity	(78)	(72)	(6)
Allocations during the period	92	181	(89)
Staff severance indemnity fund at 31 December 2004	603	589	14

The item changes related to allocations made in conformity with law and amounts drawn out due to departures of personnel.

Non-current payables

The non-current payables are composed of:

<i>€ thousands</i>	31 Dec 2004	30 Jun 2004	Change
Convertible bonds	0	2,170	(2,170)
Amounts owed to other lenders	1,777	168	1,609
Non-current payables	1,777	2,338	(561)

The item "convertible bonds" related to the residual convertible bond issue, with exclusion of option rights, issued by the parent company, duration three years from the issue date, was classified among the current items due to the conversion expectations and the fact that it expires next August. The amount payable at 31 December 2004 remains the same, €2,170 thousand.

Amounts owed to other lenders - current

The item "amounts owed to other lenders" comprises the debt contracted with Intesa Leasing relative to the finance lease payments falling due after the end of the current fiscal year. The current portion of the debt equals €96 thousands.

Accrued expense and deferred income

<i>€ thousands</i>	31 Dec 2004	30 Jun 2004	Change
Accrued commission expense	1,255	565	690
Accrued interest	0	36	(36)
Accrued banking charges	37	20	17
Deferred income from online games	136	133	3
Total accrued expense and deferred income	1,428	754	674

Off-balance sheet items

The detail of the off-balance sheet items is:

€ thousands	31 Dec 2004	30 Jun 2004	Change
Credit guarantees to third parties	4,356	3,354	1,002
Hedging on interest rates	23,000	3,000	20,000
Derivatives on exchange rates	0	7,699	(7,699)
Leased assets	0	189	(189)
Total off-balance sheet items	27,356	14,242	13,114

The credit guarantees to third parties increased by €1,002 thousand and consist primarily of guarantees granted to videogame *publishers* to benefit from better contractual conditions.

The item "hedging on interest rates" consists of:

- an interest rate swap of the "double swap" type due on 21 July 2008. The gains realized during the year totaled around €1,000 and were reported as financial income.
- an interest rate swap thoroughly discussed in the second on provisions.

The decrease in the item "derivatives on exchange rates" is also amply explained in the section on provisions.

INCOME STATEMENT

Financial income and expense

The detail of financial income is the following:

<i>€ thousands</i>	1st half 2004-05	1st half 2003-04	Change
Interest on securities	56	19	37
Interest on bank balances	9	5	4
Total financial income	65	24	41

The detail of financial expense is the following:

<i>€ thousands</i>	1st half 2004-05	1st half 2003-04	Change
Interest paid	1,064	917	(147)
Interest and charges on factoring	121	90	(31)
Other interest paid	355	221	(134)
Convertible bond loan	72	111	39
Total financial expense	1,612	1,339	(273)

No gains or losses on currency exchange were reported.

Impairment losses on financial assets

No impairment losses on financial assets were reported.

Extraordinary income and expense

The detail of extraordinary income is the following:

<i>€ thousands</i>	1st half 2004-05	1st half 2003-04	Change
Nonexistent payables	38	30	8
Other nonrecurring income	0	3	(3)
Increased allocation of costs	5	3	2
Total extraordinary income/(expense)	43	36	7

Payables become nonexistent due to settlements with suppliers.

The detail of extraordinary expense is the following:

<i>€ thousands</i>	1st half 2004-05	1st half 2003-04	Change
Adjustment to revenue of prior years	632	249	(383)
Nonexistence of receivables	97	100	3
Total extraordinary expense	729	349	(380)

OTHER INFORMATION

Employees

The detail of the staff at the end of the period compared with the same numbers last year is the following:

Category	31 Dec 2004	30 Jun 2004	Change
Managers	5	4	1
Office staff	71	72	(1)
Workers and apprentices	11	11	0
Total	87	87	0

The average number of employees in 2004 is computed as the simple average of employees on staff at the end of each month, compared with the same data for the previous year:

Category	Ave. number in 2004	Ave. number in 2003	Change
Managers	4	4	0
Office staff	74	73	+ 1
Workers and apprentices	6	4	+ 2
Total	84	81	+ 3

Compensation to Directors and Statutory Auditors

Pursuant to CONSOB Regulations no. 11971/99 and subsequent amendments, implementing Legislative Decree 58 of 24 February 1998, we present the following detail of compensation paid or payable to the Board of Directors and the Statutory Audit Committee. There were no general managers at the reporting data as set forth in Article 2396 of the Civil Code.

Full Name	Position	Time in office	Expiration of term	Fees	Non-monetary benefits	Other compensation
Board of Directors						
Abramo Galante	Chairman and MD	01/07/04-31/12/04	30/06/05	139,000	2,245	7,292
Raffaele Galante	MD	01/07/04-31/12/04	30/06/05	139,000	1,071	7,292
Davide Galante	Director	01/07/04-31/12/04	30/06/05	7,750	0	0
Sem Bruno Moioli	Director	01/07/04-31/12/04	30/06/05	0	1,071	74,967
Bruno Soresina	Director	01/07/04-31/12/04	30/06/05	7,750	0	0
Dario Treves	Director	01/07/04-31/12/04	30/06/05	0	1,085	0
Martial Chaillet	Director	01/07/04-31/12/04	30/06/05	7,750	0	0
Sergio Treves	Director	01/07/04-31/12/04	30/06/05	7,750	0	0
Statutory Audit Committee						
Franco Gaslini	Chairman	01/07/04-31/12/04	30/06/05	10,461	0	7,099
Paolo Villa	Standing Auditor	01/07/04-31/12/04	30/06/05	7,700	0	0
Giovanni Giovannini	Standing Auditor	01/07/04-31/12/04	30/06/05	7,700	0	1,957
Marcello Priori	Alternate	01/07/04-31/12/04	30/06/05	0	0	0
Alessandro Carducci	Alternate	01/07/04-31/12/04	30/06/05	0	0	0

The Board members and members of the Statutory Audit Committee received no bonuses or other incentives during the period in question.

No compensation was paid to members of the Board of Directors or Statutory Audit Committee by other group companies.

Stock Option

The four-year stock option plan approved by the shareholders in their special session of 19 April 2000 expired with not requests to exercise the options. No beneficiaries of options on the issue of Digital Bros common stock therefore exist.

Fiscal decontamination

Legislative Decree 6/2003 established the elimination from financial statements of so-called “fiscal interference” related to accounting entries made in years prior to the effective date of the decree. A detailed analysis of the various categories will be presented in the financial statements for the fiscal year ending 30 June 2004. We can point out now, however, that we believe no significant amounts will emerge from the analysis.

We declare that the present six-month situation, composed of a balance sheet, income statement and explanatory notes, as well as the Board of Directors Report, conforms to the accounting records kept as required by law and offers a fair and true representation of the financial situation and profit performance of the group during the period.

In the name and on behalf of the Board of Directors

The Chairman

(Abramo Galante)

Situation Six-month Digital Bros S.p.A. to the 31 December 2004
Balance Sheet
Amounts in € thousands

ASSETS:	31 Dec 2004	30 Jun 2004	31 Dec 2003
B) Non-current assets			
I - Intangible assets			
1) organization and expansion costs	373	645	1,178
4) concessions, licenses, trademarks and similar rights	946	595	1,118
5) goodwill	0	467	524
6) assets in process and prepayments	922	909	110
7) other	32	13	26
Total intangible assets	2,273	2,629	2,956
II - Property, plant and equipment			
1) land and buildings	449	455	461
2) plant and machinery	0	3	4
3) industrial and commercial equipment	290	252	290
4) other assets	3	1	2
Total property, plant and equipment	742	711	757
III - Non-current financial assets			
1) equity investments in:			
a) subsidiaries	250	1,134	1,084
2) receivables			
e) due from others			
b) Amounts collectible beyond FY 2004-05	0	3	3
Total Non-current financial assets	250	1,137	1,087
Total Non-current Assets (B)	3,265	4,477	4,800
C) Current assets			
I - Inventories			
4) finished products and goods for resale	20,144	18,672	17,980
Total inventories	20,144	18,672	17,980
II - Receivables (net)			
1) trade receivables			
a) current	26,955	17,674	22,689
b) non-current	1,740	2,414	2,851
2) amounts due from subsidiaries			
a) current	929	3,418	3,160
b) non-current	3,640	3,637	3,636
4bis) tax credits			
a) current	303	250	32
4ter) prepaid taxes			
a) current	1,067	1,067	1,067
b) non-current	2,424	2,424	2,424
5) due from others			
a) current	427	159	213
b) non-current	121	118	3
Total Receivables	37,606	31,161	36,075
III - Investments not carried as no-current assets			
4) own shares	97	97	0
5) other securities	2,583	3,293	3,502
Total financial assets	2,680	3,390	3,502

	31 Dec 2004	30 Jun 2004	31 Dec 2003
IV - Cash and cash equivalents			
1) bank and P.O. deposits	1,471	1,561	1,719
3) cash and valuables on hand	6	24	5
Total Cash and cash equivalents	1,477	1,585	1,724
Total current assets (C)	61,907	54,808	59,281
D) Prepaid expense and accrued income			
b) Prepaid expense (D)	650	276	167
Total assets (B+C+D)	65,822	59,561	64,248

LIABILITIES:	31 Dec 2004	30 Jun 2004	31 Dec 2003
A) Shareholders' equity			
I - Capital	5,388	5,388	5,388
II - Share premium reserve	37,688	37,688	37,785
IV - Legal reserve	258	258	258
VI Own shares in portfolio	97	97	0
VIII - Retained earnings (losses)	(22,748)	(15,303)	(15,303)
Sub-total	20,683	28,128	28,128
IX - Net profit (loss) for the period	3,739	(7,442)	(7,714)
Total Shareholders' equity (A)	24,422	20,686	20,414
B) Provisions			
2) for taxes	0	0	54
3) other	5,612	6,199	4,371
Total Provisions (B)	5,612	6,199	4,425
Staff severance indemnity fund (C)	570	545	510
D) Payables:			
2) convertible bonds			
a) current	2,170	0	0
b) non-current	0	2,170	2,170
4) amounts owed to banks			
a) current	22,564	18,706	25,341
5) amounts owed to other lenders			
b) non-current	0	169	169
6) prepayments received			
a) current	272	0	0
7) trade payables			
a) current	7,500	5,524	6,051
9) amounts payable to subsidiaries			
a) current	210	2,198	2,212
12) taxes payable			
a) current	379	1,929	1,753
13) amounts payable to pension and social-security institutes			
a) Current	167	130	153
14) other payables			
a) Current	664	684	462
Total Payables (D)	33,926	31,510	38,311
E) Accrued expense and deferred income			
a) Accrued expense	1,292	621	588
b) Deferred income	0		0
Total Accrued expense and deferred income (E)	1,292	621	588
Total liabilities and shareholders' equity (A+B+C+D+E)	65,822	59,561	64,248
OFF-BALANCE SHEET ITEMS:			
a) Guarantees granted	4,356	3,355	775
b) Derivative contracts	23,000	10,795	28,446
e) Commitments	0	0	2,777
Total off-balance sheet items	27,356	14,150	31,998

Six-month Situation Digital Bros S.p.A. at 31 December 2004
Income Statement
Amounts in € thousands

	1st half 2004-05	1st half 2003-04
A) Value of production		
1) revenue from sales and services	60,234	47,785
2) changes in inventories of finished goods	1,472	2,383
5) other revenues and gains:		
a) other revenue	623	634
Total value of production	62,329	50,802
B) Costs of production		
6) for raw materials, ancillaries, consumables and goods for resale	44,234	37,239
7) costs for services	6,747	5,889
8) use of third-party assets	192	208
9) personnel-related expense:		
a) salaries and wages	1,170	939
b) payroll contributions	394	353
c) severance indemnity	84	82
10) amortization/depreciation and write-downs:		
a) amortization of intangible assets	1,404	2,241
b) depreciation of property, plant and equipment	61	69
d) write-downs of receivables included in current assets	173	876
12) allocations to provisions	893	366
14) other operating costs	320	401
Total costs of production	55,672	48,663
Difference between value and costs of production (A-B)	6,657	2,139
C) Financial income (expense)		
16) other income financial		
c) from investments carried as current assets	56	19
e) other income	9	5
17) interest and other financial expense		
e) other interest and financial expense	(1,609)	(1,337)
Total interest and financial expense	(1,544)	(1,313)
D) Impairment losses on financial assets		
19) impairment losses		
a) equity investments	(700)	(8,333)
b) investments carried as non-current assets	0	(3,069)
Total impairment losses	(700)	(11,402)
E) Extraordinary income (expense)		
20) income		
b) other income	21	34
21) expense		
c) other expense	(695)	(347)
Total extraordinary items, net (20-21)	(674)	(313)
Pre-tax result (A-B+C+-D+-E)	3,739	(10,889)