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## **chairman's statement**

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The results for the six months ended 30 September 2005 reflect the investment made by the Group in the development and leveraging of new technology for the internet gambling arena together with devising a strategic marketing initiative to complement the Group's entry into this market.

### **Results**

Turnover for the six months ended 30 September 2005 was £285,000 compared with £1,051,000 in the same period last year. The loss (both before and after tax) for the half year was £66,000 compared with a profit of £35,000 in the same period last year.

No dividend is proposed for the period (2004: £nil).

### **Operating Review and Current Developments**

As already announced, the most important recent development was the fact that the Group signed agreements with The Palace Group and Microgaming facilitating its entry into the internet gambling arena, utilising technology developed by the Group. The cost of developing this new technology has been largely internally funded and it is anticipated that the new product will be launched during the 1st quarter of 2006. The Group will need to invest considerable funds in order to fully implement its strategic entry into the internet gambling market, and as a result of this requirement the Board has called an Extraordinary General Meeting to be held on 20 January 2006. At the EGM, resolutions will be placed before shareholders regarding the raising of substantial capital. The notice calling the EGM fully outlines the Board's rationale and specific resolutions that shareholders need to consider.

The Group is also working on a number of other development opportunities both within the traditional video gaming market and the internet gambling arena, which will be announced once they have come to fruition.

## **Prospects**

The Group remains focused on the design and development of video games for all games consoles together with utilising our experience and knowledge of the consumer games market in other related fields.

**John Corre**  
*Chairman*

29 December 2005

# consolidated profit and loss account

for the six months ended 30 September 2005

	<b>Note</b>	<b>Unaudited 6 months ended 30 September 2005 £'000</b>	Unaudited 6 months ended 30 September 2004 £'000	Audited Year ended 31 March 2005 £'000
<b>Turnover</b>		<b>285</b>	1,051	1,869
Cost of sales		<b>(225)</b>	(817)	(1,454)
<b>Gross profit</b>		<b>60</b>	234	415
<b>Operating (loss)/profit</b>		<b>(69)</b>	35	64
Interest receivable		<b>3</b>	-	8
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(66)</b>	35	72
Taxation		-	-	47
<b>Retained (loss)/profit for the period</b>		<b>(66)</b>	35	119
<b>(Loss)/earnings per share</b>		<b>pence</b>	pence	pence
Basic	<b>2</b>	<b>(0.15)</b>	0.08	0.27
Diluted	<b>2</b>	<b>(0.14)</b>	0.08	0.26

All amounts relate to continuing operations.

## statement of total recognised gains and losses

for the six months ended 30 September 2005

	<b>Unaudited 6 months ended 30 September 2005 £'000</b>	Unaudited 6 months ended 30 September 2004 £'000	Audited Year ended 31 March 2005 £'000
(Loss)/profit for the period	<b>(66)</b>	35	119
Currency translation differences	-	(1)	(2)
<b>Total recognised (losses)/gains relating to the period</b>	<b>(66)</b>	34	117

# consolidated balance sheet

as at 30 September 2005

	<b>Unaudited As at 30 September 2005 £'000</b>	Unaudited As at 30 September 2004 £'000	Audited As at 31 March 2005 £'000
<b>Fixed assets</b>			
Tangible assets	<b>11</b>	27	14
	<b>11</b>	27	14
<b>Current assets</b>			
Stocks	<b>1,064</b>	-	334
Debtors	<b>59</b>	1,152	423
Cash at bank and in hand	-	186	222
	<b>1,123</b>	1,338	979
<b>Creditors:</b> amounts falling due within one year	<b>(443)</b>	(694)	(239)
<b>Net current assets</b>	<b>680</b>	644	740
<b>Net assets</b>	<b>691</b>	671	754
<b>Capital and reserves</b>			
Called up share capital	<b>441</b>	440	440
Share premium account	<b>3,832</b>	3,830	3,830
Merger reserve	<b>735</b>	735	735
Profit and loss account	<b>(4,317)</b>	(4,334)	(4,251)
<b>Shareholders' funds - equity</b>	<b>691</b>	671	754

## consolidated cash flow statement

for the six months ended 30 September 2005

	<b>Unaudited 6 months ended 30 September 2005</b>	Unaudited 6 months ended 30 September 2004	Audited Year ended 31 March 2005	
<b>Note</b>	<b>£'000</b>	£'000	£'000	
<b>Net cash (outflow)/inflow from operating activities</b>	<b>3</b>	<b>(263)</b>	<b>27</b>	<b>56</b>
<b>Returns on investments and servicing of finance</b>				
Interest received	<b>3</b>	-	8	
	<b>3</b>	-	8	
<b>Capital expenditure</b>				
Purchase of tangible fixed assets	<b>(3)</b>	(19)	(19)	
	<b>(3)</b>	(19)	(19)	
<b>Net cash (outflow)/inflow before use of liquid resources and financing</b>	<b>(263)</b>	8	45	
<b>Management of liquid resources</b>				
Movement in short term bank deposits	-	207	207	
	-	207	207	
<b>Financing</b>				
Issue of ordinary share capital	<b>3</b>	-	-	
	<b>3</b>	-	-	
<b>(Decrease)/Increase in cash</b>	<b>(260)</b>	215	252	

# notes to the interim financial statements

for the six months ended 30 September 2005

## 1 Basis of preparation

The interim financial statements have been prepared on the basis of the accounting policies set out in the Group's Annual Report and Accounts for the year ended 31 March 2005. The financial information for the year ended 31 March 2005 has been extracted from the Annual Report and Accounts, which have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statements under section 237(2) or (3) of the Companies Act 1985. The financial information contained in this document does not constitute statutory financial statements as defined in section 240 of the Companies Act 1985.

## 2 (Loss)/earnings per share

### Six Months Ended 30 September 2005

Loss per share has been calculated using the following:	Earnings	Weighted average number of shares
Basic	(£66,000)	44,008,739
Diluted	(£66,000)	45,233,739

The difference between the weighted average number of shares in issue on a basic and diluted basis reflects those shares which would be issued at 2.62p consideration under the Bits Corp Share Option Scheme.

Six Months Ended 30 September 2004

Earnings per share has been calculated using the following:	Earnings	Weighted average number of shares
Basic	£35,000	43,991,690
Diluted	£35,000	43,991,690

Year Ended 31 March 2005

Earnings per share has been calculated using the following:	Earnings	Weighted average number of shares
Basic	£119,000	43,991,690
Diluted	£119,000	44,691,320

The difference between the weighted average number of shares in issue on a basic and diluted basis reflects those shares which would be issued at 2.62p consideration under the Bits Corp Share Option Scheme.

## notes to the interim financial statements

for the six months ended 30 September 2005

### 3 Net cash outflow from operating activities

	<b>Unaudited 6 months ended 30 September 2005 £'000</b>	Unaudited 6 months ended 30 September 2004 £'000	Audited Year ended 31 March 2005 £'000
Operating (loss)/profit	<b>(69)</b>	35	64
Depreciation and amortisation of fixed assets	<b>7</b>	13	25
Increase in stock	<b>(730)</b>	-	(334)
Decrease/(Increase) in debtors	<b>367</b>	(233)	493
Increase/(Decrease) in creditors	<b>162</b>	212	(192)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(263)</b>	27	56

### 4 Reconciliation of net cash flow to movement in net funds

	<b>Unaudited 6 months ended 30 September 2005 £'000</b>	Unaudited 6 months ended 30 September 2004 £'000	Audited Year ended 31 March 2005 £'000
(Decrease)/Increase in cash in period	<b>(260)</b>	215	252
Decrease liquid resources	-	(207)	(207)
Change in net funds resulting from cash flows	<b>(260)</b>	8	45
Currency translation differences	-	(1)	(2)
Movement in net funds in the period	<b>(260)</b>	7	43
Opening net funds	<b>222</b>	179	179
<b>Closing net funds</b>	<b>(38)</b>	186	222

## notes to the interim financial statements *(continued)*

for the six months ended 30 September 2005

### 5 Analysis of net funds

	At 1 April 2005 £'000	Cash Flows £'000	Translation differences £'000	At 30 September 2005 £'000
Cash at bank and in hand	222	(222)	-	-
Bank overdrafts	-	(38)	-	<b>(38)</b>
	222	(260)	-	<b>(38)</b>
Short term deposits	-	-	-	-
<b>Total net funds</b>	222	(260)	-	<b>(38)</b>

## company information

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### Directors

John H Corre FCA  
Fouad ("Foo") M A Katan  
Julian I Levy FCA

Non-executive Chairman  
Chief executive/Managing director  
Non-executive Finance director

### Secretary

Dipak Pandya ACA

### Registered Office

112 Cricklewood Lane, Cricklewood, London NW2 2DP

### Company Number

4064683

### Financial Advisers and Stockbrokers

Collins Stewart plc, 9th Floor, 88 Wood Street, London EC2V 7QR

### Auditors

Auerbach Hope, 58-60 Berners Street, London, W1T 3JS

### Solicitors

Jones Day, 21 Tudor Street, London EC4Y 0DJ

### Bankers

Allied Irish Bank (GB), Mayfair Branch, 10 Berkeley Street, London W1J 6AA

### Registrars

Capita IRG plc, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU