

**Draft**

**11 June 2001**

## **BITS CORP PLC**

### **Preliminary Results for the year to 31 March 2001**

Bits Corp plc ('Bits Corp' or 'the Company'), a leading UK developer of video games software for major console platforms, which raised £4.1 million when it listed on AIM in September 2000, today reports its preliminary results for the year to 31 March 2001.

#### **Highlights**

- Turnover of £1.62m, a substantial increase on the turnover of £513,000 for the 5 months ended 31 March 2000.
- Post-tax loss of £1.2m ahead of Company forecasts - after significant investment in Virtual Athlete.
- Agreement signed with Fox Interactive to develop, co-publish and distribute within Europe a video game under the "Die Hard" licence for Nintendo's Game Cube.
- Development of next generation platform games continues, including the game codenamed Thieves World being developed with Midway Home Entertainment.
- Agreement signed with Sun Microsystems to participate with an exclusive group of expert game developers to define a new Java™ technology gaming standard for building next generation multi-platform video games for both consoles and hand-held devices.
- Launch of Virtual Athlete™ pilot Internet game by their subsidiary, Games Magnet Limited, received sponsorship from MSN, AOL, Netscape, Kellogg's and Sports.com.
- New team established in France to take advantage of the many skilled development personnel based there.
- Strong cash position having raised £4.1m gross at flotation.

**Commenting on the Results, Foo Katan, Chief Executive of Bits Corp plc, said:**

“We are continuing our focus of games development for the next generation consoles, including Sony’s PlayStation 2, Microsoft’s Xbox, Nintendo’s GameCube™ and Nintendo’s GameBoy™ Advance, with games such as “Die Hard” and “Thieves World”, amongst others. The securing of the European Distribution rights and the ability to develop “Die Hard” for other next generation platforms creates the potential to generate significant additional revenues and will raise the Company’s profile in Europe.

The turnover is in line with forecasts and the trading result for the period is ahead of Company expectations. The Company continues to be in a strong cash position and we can look forward to the future with confidence.”

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## **Chairman's Statement**

This is the first Annual Report of Bits Corp plc as a publicly quoted company, and I am delighted to report significant progress.

### **Results**

Turnover for the year to 31 March 2001 was £1.62m, a substantial increase on the turnover of £513,000 for the five months ended 31 March 2000. There was a loss after tax for the year to 31 March 2001 of £1.20m, compared with a profit of £5,000 in the five months to 31 March 2000. The primary reason for the change in the trading result year on year was the high level of investment into the development of our pilot Internet game, Virtual Athlete™, providing us with tools and technologies that are able to be utilised in future games that may be developed.

The turnover for the year ended 31 March 2001 is in line with the Group's budgets and its expectations at the time of flotation. The trading result for the same period is ahead of expectations.

In line with the policy set out in the flotation prospectus, the directors do not propose the payment of a dividend for the year.

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

The year to 31 March 2001 has been an exciting one for Bits Corp Plc, with a successful transition from private to public status in September 2000, raising in excess of £4 million (before expenses) from the flotation on the Alternative Investment Market of the London Stock Exchange, and other key developments taking place.

Most recently we were delighted to announce that we have signed an agreement with Fox Interactive (a division of 20<sup>th</sup> Century Fox) to develop and co-publish a video game under the "Die Hard" licence. This new game is being developed for Nintendo's next generation games console, the Game Cube, which is due to be released in the US later

this year and within Europe in early 2002. Previous versions of the Die Hard game, created by other game developers for existing games consoles, have sold in excess of 3 million units to date. If the new version achieves a fraction of this total, it will make a significant impact on profits of the Group.

At the same time, we announced that we have secured the European distribution rights for this version of the “Die Hard” game, and have been granted the rights to create versions of the game for other next generation consoles, having the potential to create additional revenues. This is an opportunistic commercial deal for Bits, and in no way moves the Group’s focus away from being a pure developer. It is anticipated that the distribution and publishing rights will be sold on to a high profile publisher during the current financial year.

Towards the end of the year under review, we signed an agreement to participate with an exclusive group of expert game developers and technology companies, alongside Sun Microsystems, to define a new Java™ technology-based standard for building next generation multi-platform video games and entertainment services. Bits expects to benefit hugely from its participation by gaining insight into future technologies to evolve Amber, our 3D Internet tools and technology. Participation will raise the Group profile with some key figures within the industry, including Sony On-Line Entertainment and Sega.com, and will reduce the lead time of a game from concept to product, thus making it easier to create new games on multiple devices.

Bits Studios Limited has continued the development of its video games and, during the period, two games developed for Nintendo’s GameBoy™ Color were completed, including the much acclaimed and award-winning, Warlocked. We are also continuing the development of games for next generation platforms, including Die Hard, as mentioned above, and a further game with our publishing partner, Midway Home Entertainment, codenamed Thieves World.

During the year our pilot Internet game, Virtual Athlete™, was launched through our subsidiary, Games Magnet Limited. This game, which requires players to collect and “train” characters before entering them to compete against each other, has to date attracted more than 12,000 registered players. Revenue has been generated from

sponsorship of the “virtual athletes” by such leading brands as MSN, AOL, Netscape, Kellogg’s and Sports.com. As a result of the success of this pilot, but bearing in mind the current state of the Internet market, the Company is cautiously looking to expand this exciting new area by way of the development of further innovative on-line games in conjunction with forging appropriate strategic corporate alliances.

### **Staff**

The Group is fortunate to have a dedicated and enthusiastic staff, with tremendous energy and commitment, and we are continuing to strategically grow this team to gain from opportunities presented to us. With this in mind, we recently opened a French office to take advantage of the many skilled development personnel who are available there.

The Group has in place a share option scheme to motivate, attract and retain key employees, and the board of directors thank our dedicated employees for their efforts during the year.

### **Prospects**

It is well known that the computer games industry is in an intermediate phase during the transition from the existing generation of platforms to the next, with the launch of the Sony’s Playstation 2 last year, and Nintendo’s and Microsoft’s next generation consoles expected to be launched later this year and early next. The launch of these platforms is anticipated to further boost the industry, which continues to thrive, and is reported to have grown by 15% per annum from 1997 to 2000.

We are confident that the Group is well placed to take advantage of the opportunities presented by these next generation consoles and the continually changing face of technology. Our strategy is to remain focused as game developers, producing games high in quality and content, and to expand organically or by suitable acquisitions and partnerships, where it is felt that a significant contribution to profitability can be made and where the acquired business can provide synergy. During the year, the Board has looked closely at a number of businesses for this purpose but none of these potential acquisitions sufficiently fulfilled all of the criteria.

As can be seen from the Balance Sheet, the Company continues to be in a strong cash position, and we can look forward to the future with confidence.

**John Corre**

*Chairman*

8 June 2001

## Consolidated Profit and Loss Account for the Year ended 31 March 2001

	<b>Year ended 31 March 2001 £'000</b>	5 Months ended 31 March 2000 £'000
Turnover	1,621	513
Cost of sales	(1,855)	(410)
<b>Gross profit</b>	<b>(234)</b>	103
Distribution costs	(5)	(1)
Administrative expenses	(1,028)	(87)
<b>Operating (loss)/profit</b>	<b>(1,267)</b>	15
Interest receivable	79	-
Interest payable and similar charges	(8)	(10)
<b>(Loss)/profit on ordinary activities before taxation</b>	<b>(1,196)</b>	5
Taxation on (loss)/profit from ordinary activities	(3)	-
<b>(Loss)/profit retained for the year</b>	<b>(1,199)</b>	5
<hr/>		
<b>(Loss)/earnings per share</b>		
Basic	<b>(4.26 p)</b>	0.02 p
Diluted	<b>(4.26 p)</b>	0.02 p

The results relate wholly to continuing operations.

There were no material gains or losses, other than those shown in the profit and loss account, to be recognised. There is no material difference between the results stated above and the results shown on a historical basis.

## Consolidated Balance Sheet at 31 March 2001

	31 March 2001 £'000	31 March 2000 £'000
<b>Fixed Assets</b>		
Tangible Assets	99	19
Investments	-	-
	<b>99</b>	<b>19</b>
<b>Current Assets</b>		
Debtors	941	466
Cash at bank and in hand	1,937	6
	<b>2,878</b>	<b>472</b>
<b>Creditors:</b> amounts falling due within one year	<b>(670)</b>	<b>(703)</b>
<b>Net current assets/(liabilities)</b>	<b>2,208</b>	<b>(231)</b>
<b>Total assets less current liabilities</b>	<b>2,307</b>	<b>(212)</b>
<b>Creditors:</b> amounts falling due after more than one year	<b>-</b>	<b>(175)</b>
<b>Net assets/(liabilities)</b>	<b>2,307</b>	<b>(387)</b>
<b>Capital and reserves</b>		
Called up share capital	317	239
Share premium account	3,476	-
Merger reserve	735	396
Profit and loss account	(2,221)	(1,022)
<b>Shareholders' funds – equity</b>	<b>2,307</b>	<b>(387)</b>

## Consolidated Cash Flow Statement for the Year ended 31 March 2001

	Year ended 31 March 2001 £'000	5 Months ended 31 March 2000 £'000
<b>Net cash outflow from operating activities</b>	<b>(1,493)</b>	<b>(147)</b>
<b>Returns on investments and servicing of finance</b>		
Interest received	79	-
Interest paid	(8)	(10)
	<b>71</b>	<b>(10)</b>
<b>Taxation</b>		
Overseas tax paid	(3)	-
	<b>(3)</b>	<b>-</b>
<b>Capital expenditure</b>		
Purchase of tangible fixed assets	(124)	(11)
	<b>(124)</b>	<b>(11)</b>
<b>Net cash outflow before use of liquid resources and financing</b>	<b>(1,549)</b>	<b>(168)</b>
<b>Management of liquid resources</b>		
Movement in short term bank deposits	(1,480)	-
	<b>(1,480)</b>	<b>-</b>
<b>Financing</b>		
Decrease in loans	(296)	(30)
Issue of ordinary share capital	4,452	299
Expenses paid in connection with share issues	(558)	-
Capital element of hire purchase contracts	(6)	(3)
	<b>3,592</b>	<b>266</b>
<b>Increase in cash in the year</b>	<b>563</b>	<b>98</b>

## Notes to the Financial Information

### 1 Publication of non-statutory accounts

The financial information contained in this preliminary statement does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The financial information for the year ended 31 March 2001 has been extracted from the audited group financial statements on which the auditors report was signed on 8 June 2001.

The following are extracts from the notes to the audited group financial statements for the year ended 31 March 2001.

### 2 (Loss)/earnings per share

The calculation of basic earnings is based on the loss after taxation of £(1,199,000) (5 months ended 31 March 2000 – profit £5,000) by reference to the weighted average of 28,157,208 (31 March 2000 – 22,794,107) ordinary shares in issue during the period. Since none of the Company's potential ordinary shares are dilutive for the year ended 31 March 2001 there is no diluted loss per share for that period. The diluted earnings per share for the five month period ended 31 March 2000 is based on 23,539,476 ordinary shares, the difference to the basic calculation representing the additional shares that would be issued on the conversion of all of the dilutive potential ordinary shares.

### 3 Reconciliation of movements in shareholders' funds

	2001 £'000	2000 £'000
(Loss)/profit for the financial period	(1,199)	5
Share capital issued	3,893	448
Net addition to shareholders' funds	2,694	453
Opening shareholders' funds	(387)	(840)
<b>Closing shareholders' funds</b>	<b>(2,307)</b>	<b>(387)</b>

### 4 Reconciliation of operating (loss)/profit to net cash outflow from operating activities

	2001 £'000	2000 £'000
Operating (loss)/profit	(1,267)	15
Depreciation of tangible fixed assets	44	11
(Increase)/decrease in debtors	(475)	179
Increase/(decrease) in creditors	205	(352)
<b>Net cash outflow from operating activities</b>	<b>(1,493)</b>	<b>(147)</b>

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

	2001 £'000	2000 £'000
Increase in cash in the period	563	98
Increase in liquid resources	1,480	-
Cash outflow from decrease in lease financing	6	3
Cash outflow from decrease in debt financing	296	30
Movement in net debt in the period	2,345	131
Opening net debt	(410)	(541)
<b>Net funds at the end of the year</b>	<b>1,935</b>	<b>(410)</b>

## 6 Analysis of net funds

	At 1 April 2000 £'000	Cash flow £'000	At 31 March 2001 £'000
Cash at bank and in hand	6	451	457
Bank overdrafts	(114)	112	(2)
	(108)	563	455
Short term deposits	-	1,480	1,480
Finance leases	(6)	6	-
Debt due within one year	(121)	121	-
Debt due after one year	(175)	175	-
	(302)	1,782	1,480
<b>Total net funds</b>	<b>(410)</b>	<b>2,345</b>	<b>1,935</b>

## 7 Annual Report

The annual report for the year ended 31 March 2001 will be mailed to shareholders shortly.