



Press Release
27 September 2005

Bits Corp plc
Preliminary Results for the year ended 31 March 2005

Chairman's Statement

Results

Turnover for the year ended 31 March 2005 was £1,869,000 compared with £1,858,000 in the prior year. The profit before and after tax for the year was £72,000 and £119,000 respectively (2004: profit both before tax and after tax £107,000).

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

Operating Review and Current Developments

The year under review has seen a number of developments. Firstly, we were able to obtain the licence to develop the video game of the Warner Brothers feature film entitled "Constantine" starring Keanu Reeves, and entered into a publishing agreement with Sci Games for the distribution of the video game on the Playstation2™ and Microsoft Xbox™ platforms. The game was released in March 2005 to coincide with the release of the movie.

We were also able to announce an agreement with Namco Hometek to develop an innovative video game entitled "Payout Poker & Casino" to be released in North and South America in the last quarter of this year on the Playstation2™ and Microsoft Xbox™ platforms, as well as a PC version.

Staff

The staff have continued to make a significant contribution to the Group's success, and the board of directors thank our dedicated employees for their wonderful efforts during the year.

Prospects

The Group remains focused on its core activity, the design and development of video games for all next generation games consoles. In addition, other ventures are also being actively pursued, including ventures in the field of online gambling.

I am confident that Bits will continue to go from strength to strength under the inspiring leadership of our Chief Executive, Foo Katan, and his dedicated team.

John Corre
Chairman

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**Consolidated Profit and Loss Account
for the year ended 31 March 2005**

	Year ended 31 March 2005 £'000	Year ended 31 March 2004 £'000
Turnover	1,869	1,858
Cost of sales	(1,454)	(1,420)
Gross profit	415	438
Distribution costs	(3)	(6)
Administrative expenses	(348)	(334)
Operating profit	64	98
Interest receivable	8	9
Profit on ordinary activities before tax	72	107
Tax on profit on ordinary activities	47	-
Profit retained for the year	119	107
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Earnings per share		
Basic	0.27 p	0.25 p
Diluted	0.26 p	0.25 p

The results relate wholly to continuing operations.

There is no material difference between the results stated above and the results shown on an historical basis.

**Statement of Total Recognised Gains and Losses
for the year ended 31 March 2005**

	Year ended 31 March 2005 £'000	Year ended 31 March 2004 £'000
Profit/(Loss) for the year	119	107
Currency translation differences	(2)	11
Total recognised gains and losses relating to the year	117	118

**Consolidated Balance Sheet
as at 31 March 2005**

	31 March 2005 £'000	31 March 2004 £'000
Fixed assets		
Intangible assets	-	-
Tangible assets	14	20
	14	20
Current assets		
Stocks	334	-
Debtors	423	916
Cash at bank and in hand	222	209
	979	1,125
Creditors: amounts falling due within one year	(239)	(508)
Net current assets	740	617
Net assets	754	637
Capital and reserves		
Called up share capital	440	440
Share premium account	3,830	3,830
Merger reserve	735	735
Profit and loss account	(4,251)	(4,368)
Shareholders' funds – equity	754	637

**Consolidated Cash Flow Statement
for the year ended 31 March 2005**

	Year ended 31 March 2005 £'000	Year ended 31 March 2004 £'000
Net cash inflow/(outflow) from operating activities	56	(22)
Returns on investments and servicing of finance		
Interest received	8	9
	8	9
Taxation		
Corporation tax repaid	-	47
	-	47
Capital expenditure		
Purchase of tangible fixed assets	(19)	(14)
	(19)	(14)
Net cash inflow before use of liquid resources and financing	45	20
Management of liquid resources		
Movement in short term bank deposits	207	(207)
	207	(207)
Financing		
Issue of ordinary share capital	-	100
VAT reclaim on expenses paid in connection with share issues	-	36
	-	136
Increase/(decrease) in cash in the year	252	(51)

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 2005 has been extracted from the audited Group financial statements.

The following are extracts from the notes to the audited Group financial statements for the year ended 31 March 2005.

2 Accounting policies

The financial statements have been prepared under the historical cost convention. The following principal accounting policies have been applied and are in accordance with applicable accounting standards.

Basis of preparation

The company's subsidiary, Bits Studios Limited is in negotiation with a number of distributors in relation to the rights to games they are currently producing. The group balance sheet includes work-in-progress of £334,000 in relation to these games. The group balance sheet also includes £253,000 of accrued income under a long term contract for the distribution of a game in the Americas. This accrued income has been recognised on the assumption that the current negotiations of a similar contract for the European rights can be successfully concluded. The group is also in negotiation with potential investors in relation to a substantial investment to further the group's objectives.

The financial statements have been produced by the directors on a going concern basis, which assumes that the group will be in operational existence for the foreseeable future. The validity of this assumption depends on Bits Studios Limited completing contracts for the games currently in production, and/or the successful conclusion of the investment negotiations. The directors are confident that these matters will be satisfactorily resolved.

If the company or its subsidiaries were unable to continue in operational existence for the foreseeable future, adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts, and to provide for further liabilities that might arise, and to reclassify fixed assets and long-term liabilities as current assets and liabilities.

Basis of consolidation

The consolidated financial statements incorporate the results of the Company and all of its subsidiaries for the relevant accounting periods. The Group acquired Bits Studios Limited on 5 September 2000, which is being consolidated using the merger method of accounting.

Merger accounting

Where merger accounting is used, the investment is recorded in the Company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration paid.

In the Group financial statements, merged subsidiary undertakings are treated as if they had always been a member of the Group. The results of such a subsidiary are included for the whole period in the year it joins the Group. The corresponding figures for the previous year include its results for that period, the assets and liabilities at the previous balance sheet date and the shares issued by the Company as consideration as if they had always been in issue. Any difference between the nominal value of the shares acquired by the Company and those issued by the Company to acquire them is taken to reserves.

Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts. Turnover is ascertained in a manner appropriate to the stage of completion of the contract and the industry in which it operates.

Stocks

Stocks and work-in-progress are stated at the lower of cost and net realisable value.

Depreciation

Depreciation is provided at a rate calculated to write off the cost less estimated residual value of all tangible fixed assets over their expected useful lives as follows:

Fixtures, fittings & equipment	50% per annum straight line
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Amortisation

Amortisation is provided at a rate calculated to write off the cost less estimated residual value of all intangible fixed assets over their expected useful lives as follows:

Software licenses	32.67% per annum straight line
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Leasing and hire purchase commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of finance charges allocated to future periods. The finance element of the rental payment is charged to the profit and loss account in order to produce a constant periodic rate of charge on the net obligations outstanding in each period.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except for deferred tax assets, which are only recognised to the extent that the Group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are not discounted.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

The results of overseas operations and their balance sheets are translated into Sterling at the rates of exchange ruling on the balance sheet date. Exchange differences that arise from translation of the opening net assets in foreign subsidiary undertakings are taken to reserves.

Profit recognition on contracting activities

In accordance with Statement of Standard Accounting Practice 9, long term contracts are assessed on a contract by contract basis and reflected in the profit and loss account by recording turnover and related costs as contract activity progresses. Profit on individual contracts is taken only when their outcome can be foreseen with reasonable certainty. It is apportioned on the basis of the stage of completion of the contract at the year end.

Full provision is made for all known or expected losses as soon as they are foreseen.

3 Earnings per share

Earnings per share has been calculated using the following:	2005		2004	
	Earnings	Weighted Average number of Shares	Earnings	Weighted Average number of Shares
Basic	£119,000	43,991,690	£107,000	42,263,548
Diluted	£119,000	44,691,320	£107,000	42,263,548

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 2.62 p consideration under the Bits Corp Share Option Scheme.

4 Reconciliation of movements in shareholders' funds

	2005 £'000	2004 £'000
Share capital issued	-	100
Reclaim of VAT on share issue expenses	-	36
Profit for the financial period	119	107
Currency translation differences	(2)	11
Net addition to shareholders' funds	117	254
Opening shareholders' funds	637	383
Closing shareholders' funds	754	637

5 Reconciliation of operating profit to net cash outflow from operating activities

	2005 £'000	2004 £'000
Operating profit	64	98
Depreciation and amortisation of fixed assets	25	316
Increase in stock	(334)	-
Decrease in debtors	493	98
Decrease in creditors	(192)	(534)
Net cash inflow/(outflow) from operating activities	56	(22)

6 Reconciliation of net cash flow to movement in net funds

	2005 £'000	2004 £'000
Increase/(decrease) in cash in the period	252	(51)
(Decrease)/increase in liquid resources	(207)	207
Change in net funds resulting from cash flows	45	156
Currency translation differences	(2)	11
Movement in net funds in the period	43	167
Opening net funds	179	12
Net funds at the end of the year	222	179

7 Analysis of net funds

	At 1 April 2004 £'000	Cash flow £'000	Translation difference £'000	At 31 March 2005 £'000
Cash at bank and in hand	2	222	(2)	222
Bank overdrafts	(30)	30	-	-
	(28)	252	(2)	222
Short term deposits	207	(207)	-	-
Total net funds	179	45	(2)	222

8 Annual Report

The Annual Report and Accounts for the year ended 31 March 2005 will be mailed to shareholders shortly.

- Ends -