

CITY INTERACTIVE S.A. COMPANY

**REPORT ON THE OPERATIONS
FOR THE PERIOD
FROM 01.01.2010 UNTIL 30.06.2010**



City Interactive S.A. Board Statement

On the basis of the Ordinance of the Minister of Finance of 19 February 2009 (Journal of Laws No. 33 Item 259 as amended) *on current and periodical information conveyed by the issuers of securities, and conditions for recognition of information as required by a state not being a member state*, the Management Board of City Interactive S.A. declares that, to the best of their knowledge, the half-year unit financial report and the comparable data have been drawn up in accordance with the current accounting principles, that they truthfully, genuinely and clearly reflect the economic and financial position of the Company and its financial result and that the half-year report on the Company's operations includes a true image of the development, achievements and position of City Interactive S.A., including a description of basic threats and risks.

The Management Board of City Interactive S.A. declares that the entity entitled to audit the financial reports which conducted a review of the half-year unit financial report has been selected in accordance with the provisions of the law. The entity and the certified auditors conducting the review fulfil the requirements necessary to issue an impartial and independent report on the review of the financial statement in compliance with the provisions of the law in force and with the professional standards.

Management Board of CITY INTERACTIVE S.A.

Marek Tymiński
President of the Board

Artur Winiarski
Member of the Board

Warsaw, 30 August 2010

I. Introduction

1. General characteristics of City Interactive S.A. H activities

City Interactive S.A. operates in the market of video games producers and publishers both in the country and abroad. It is the first of the companies in this sector to achieve the status of a public company in Central and Eastern Europe and the first to become an international global player. City Interactive S.A. focuses on building a portfolio of high quality products covering various game genres, including action games.

Within the framework of the activity conducted on the video games market the Company acts as:

- A producer who possesses its own production studios in which new projects are created,
- A publisher who purchases licences for computer games through external studios and translators, bears responsibility for the marketing policy and markets the games,
- A distributor who sells products directly to retail networks, distribution networks, internet portals and others.

By executing these functions the Company may effectively control the process of the creation and distribution of games without the necessity of engaging a great number of external entities – agents in the process of introducing the offered products on the market.

2. Share capital

2.1. Determination of the Company's share capital

As on 30 August 2010, the Issuer's share capital consists of 12 650 000 shares of a total nominal value of 1 265 000 PLN and it is divided into:

- 10 000 000 series A shares
- 40 000 series B shares
- 2 500 000 series C shares
- 110 000 D shares

Series A shares have been taken up by current shareholders of City Interactive Sp. z o.o. (Ltd.) at the moment of the Company's transformation into a Joint Stock Company.

Series B shares have been issued as part of the incentive scheme and were given to employees and associates of the Company. On 10 August 2007 the District Court registered the increase in the initial capital as a result of the issuance of series B shares.

Series C shares were subject to public offer in November 2007, which was a great success. All offered shares have been taken up and paid up. On 17 December 2007 the District Court in Warsaw registered the increase in the Company's share capital as a result of the issuance of series C shares.

Series D shares have been issued as part of the incentive scheme and were given to employees and associates of the Company. On 9 October 2009 the District Court registered the increase in the initial capital as a result of the issuance of series D shares.

There are no securities which confer special control rights in reference to the Issuer because, according to the articles of association of CITY INTERACTIVE S.A., all issued shares are ordinary bearer shares of equal nominal value and there are equal rights and obligations attached to them for each of the Shareholders.

2.2. Indication of limitations concerning the transfer of ownership of securities of the Company. Information on the employees' shares programme control system.

All Shareholders whose share in the Issuer's share capital on the date of the approval of the prospectus exceeded 2% have assumed an obligation towards the Company that, within twelve months from the day of the first quoting of the rights attached to the Issuer's shares on the Stock Exchange, they will not encumber, pledge (to the exclusion of the possibility of establishing pledge for the benefit of the bank to secure a credit), dispose, transfer the ownership in any other way or undertake to execute such acts in any way with respect to all or part of the shares, for the benefit of any person, unless the Company's Supervisory Board give consent to execute such acts. The obligation was to cease to be binding where the price for the Company's share (closing price at the Stock Exchange) exceeds the issue price by at least 20%.

The above-mentioned obligation concerned 8 987 265 series A shares owned by the above-mentioned Shareholders, which constituted 90% of the share volume owned by them as on the day of the approval of the prospectus.

All shares subject to agreements on the restriction of their transferability were deposited on the brokerage accounts kept by the IDMSA Brokerage House.

The Company is not in possession of any information concerning other agreements (including those concluded after the balance sheet date) which may result in any further changes to the proportions of the shares owned by the current Shareholders.

There are no restrictions concerning the execution of the voting right vested in the Issuer's shares.

In July 2007 the Company issued 40 000 series B shares at an issue price of 1 PLN within the framework of the incentive programme for its employees and essential co-operators. Those who took up the series B shares concluded lock-up agreements with the Company which limited the transferability of the shares for a period of two or three years. Thereby, the Issuer's employees and co-operators who own 40 000 items of series B shares of CITY INTERACTIVE S.A., which totals up to 100% of the Issuer's series B shares, concluded agreements with the Company by virtue of which they undertook to exclude the transferability of 100% of the series B shares owned by them for a period of 1 year and:

- 70% of the series B shares owned by them for a period of a successive year for a joint volume of 20 150 shares,
- 90% of the series B shares owned by them for a period of two successive years for a joint volume of 19 850 shares,

Moreover, some of the persons encompassed by the above-mentioned incentive programme also owned series A shares acquired at the sale price of 1 PLN. The Issuer's employees and co-operators, who own a total of 35 650 items of series A shares of CITY INTERACTIVE S.A., officially undertook to exclude the transferability of 100% of the shares owned by them for a period of 1 year and 90% of the shares owned by them for a period of two successive years.

All shares subject to agreements on the restriction of their transferability were deposited on the brokerage accounts kept by the IDMSA Brokerage House.

In the case of a termination of the labour relationship or co-operation with a Shareholder who owns taken-up shares as a result of the execution of the incentive programme, their shares were or are transferred to another person indicated by the Management Board of the Company.

On 30 June 2009, 110 000 of the Company's ordinary series D shares were issued. The shares were taken up by the employees of the Company and by the employees of a dependent company at an issue price of 1 PLN per share.

There are no restrictions concerning the execution of the voting right vested in the Issuer's shares taken up within the framework of the employee programme.

2.3. Determination of the number and nominal value of the Issuer's shares, held by members of the management and supervisory boards.

Person	Function	Volume of shares owned as on 30 June 2010	Nominal value of shares owned as on 30 June 2010
Marek Tymiński	President of the Management Board	7 225 704	722 570.40 PLN
Artur Winiarski	Member of the Management Board	20 000	2 000.00 PLN
Lech Tymiński	Supervisory Board Member	48 565	4 856.50 PLN
Grzegorz Leszczyński	Supervisory Board Member	409 328	40 932.80 PLN

II. Basic economic and financial values included in the financial statement.

The selected financial data included in this report has been converted into EURO according to the following principles:

Items concerning assets and liabilities for the balance sheet according to an average rate announced by the National Bank of Poland for the last balance sheet date:

- as of 30 June 2009 – 4.4696 PLN / EURO
- as of 31 December 2009 – 4.1082 PLN / EURO
- as of 30 June 2010 – 4.1458 PLN / EURO

Items of the profit and loss account and of the cash flow account according to the average rate calculated as an arithmetical mean of the rates announced by the National Bank of Poland for the last day of the month in the given year:

- for half-year of 2009 – 4.5184 PLN / EURO
- for the entire 2009 – 4.3406 PLN / EURO
- for half-year of 2010 – 4.0042 PLN / EURO

Selected financial data converted into EURO:

	cumulative 2 quarters 2010 / period from 01.01.2010 till 30.06.2010		cumulative 4 quarters 2009 / period from 01.01.2009 to 31.12.2009		cumulative 2 quarters 2009 / period from 01.01.2009 to 30.06.2009	
	'000 PLN	'000 EUR	'000 PLN	'000 EUR	'000 PLN	'000 EUR
Income statement						
Net revenue from product, merchandise and material sales	25 380	6 338	27 108	6 245	18 974	4 199
Profit (loss) on operating activity	11 089	2 454	-14 596	-3 363	1 982	439
Gross profit (loss)	11 829	2 618	-15 241	-3 511	2 416	535
Net profit (loss)	9 801	2 169	-12 668	-2 918	2 120	469
Number of shares (in thousands)	12 650	12 650	12 650	12 650	12 540	12 540
Profit (loss) on one ordinary share	0.77	0.17	-1.00	-0.23	0.17	0.04
Cash flow statement						
Net cash flows from operating activity	5 828	1 455	3 671	846	1 172	259
Net cash flows from investment activity	-3 608	-901	-8 448	-1 946	-2 479	-549
Net cash flows from financial activity	-2 424	-605	3 839	884	711	157
Total net cash flows	-204	-51	-938	-938	-596	-132
Balance						
Fixed assets	15 800	3 811	14 694	3 577	18 955	4 241
Current assets	30 181	7 280	20 852	5 076	28 894	6 465
Total assets	45 981	11 091	35 546	8 652	47 849	10 705
Equity capital	27 857	6 719	18 047	4 393	32 568	7 286
Nominal capital	1 265	305	1 265	308	1 254	281
Liabilities and provisions for liabilities	18 124	4 372	17 498	4 259	15 281	3 419
Long-term liabilities	262	63	242	59	838	188
Short-term liabilities	17 862	4 309	17 256	4 200	14 443	3 231
Liabilities total	45 981	11 091	35 545	8 652	47 849	10 705

III. Brief description of the Company's essential achievements or failures during the first half-year of 2010 and other events affecting the financial results.

The Company City Interactive S.A. operates in the market of video games producers and publishers both in the country and abroad. City Interactive S.A. is the first company of this line of business in central-eastern Europe which has the status of a public company and the first company to become a global, international player.

The main area of business of the Company is the creation and publishing of a wide assortment of video games (PC and console), in a variety of genres.

Within the framework of the activity conducted on the video games market the Issuer acts as:

- A producer who possesses its own production studios (in Warsaw, Katowice and Rzeszów) in which new projects are created,
- A publisher who purchases licences for computer games through external studios and translators, bears responsibility for the marketing policy and markets the games,
- A distributor who sells products directly to retail networks, distribution networks, internet portals and others.

By executing the first three functions the Company may effectively control the process of the creation and distribution of games without the necessity of engaging a great number of external entities – agents in the process of introducing the offered products on the market.

Major achievements in the first half-year of 2010:

Sniper: Ghost Warrior – biggest publishing success.

The key and most awaited product of the Company, designed for Xbox 360 and PC gaming platforms, Sniper: Ghost Warrior has received splendid market reception and achieved excellent sale results both in the country and abroad.

Sniper: Ghost Warrior has been released on 25 June 2010 in North America and main European markets as well as Australia and New Zealand. By the end of June 2010 it has generated income amounting to 11.3 million PLN.

Sniper: Ghost Warrior is a high quality first person perspective action game. It offers top of the line graphics, advanced game mechanics and interesting plot. The player is equipped with a sniper rifle and reflected ballistics, including wind effects and relation between the body and accuracy. The player can hold his breath or enter a focus mode, which allows better target recognition and improves rifle stability while shooting. A team with many years of experience in action games was working on this project.

Diversity of sales (including growth of digital sales channels), distribution through biggest American and European sale networks and wide-spread marketing activities resulted in over 500 thousand copies being sold up to the day of conducting the financial statement, and still growing. Product is still high on sales lists in United Kingdom, Germany and United States. All point to the fact this will be a long seller, whose life cycle will be longer than of an average product from the video game segment. Income from Sniper sales: Ghost Warrior will have a visible impact on the results in the following months and quarters.

Introduction of Company's first title dedicated to Nintendo Wii console to the global market

In the first quarter 2010 the Company successfully introduced its first Nintendo Wii game, Chicken Riot, to the Northern American and Western Europe markets.

Publishing another game of the popular Art of Murder series

In the first quarter the Company released another game of Isser's most popular series, Art of Murder: Karty Przeznaczenia (Cards of Destiny) for the PC platform. A young FBI agent, Nicole Bonnet, receives a mysterious package - a complicated riddle, which seems to be a message from a serial killer. This is only the beginning of nerve-wrecking struggle between Nicole and the killer, who leaves playing cards at the bodies of his victims as a sort of calling cards. There is not much time left to stop the killing spree and if Nicole fails, she may end up as one of the victims.

Release of Wyspa Tajemnic (Shutter Island) game

The plot of the PC game, Shutter Island, is based on a film by Martin Scorsese. Federal agent, Teddy Daniels, is sent to Shutter Island, to the Ashecliffe institution, where dangerous

criminals with mental disorders are being held. He is supposed to solve the mysterious disappearance of Rachel Solando, one of the patients. If she is still on the island, she must not leave it. As the investigation unfolds, Daniels finds out that apprehension of the fugitive might be the easiest thing he would have to do on the Shutter Island.

Cooperation with UBISOFT

In the first half-year of 2010 the Company has extended cooperation with UBISOFT, global publisher and distributor of video games responsible for marketing on the territory of Switzerland. Moreover, UBISOFT is also responsible for German and Austrian markets.

Agreement with The Producers Limited (United Kingdom).

The Company has entered an agreement with The Producers Limited - a company being part of the Mastertronic Group Limited with its registered seat in Huntingdon, United Kingdom, on basis on which, The Producers Ltd. renders services related to logistics an Issuer's product distribution on the area of United Kingdom, including the Island of Man and Ireland. The Company terminated cooperation with Trilogy Logistics Ltd., which is in insolvency, and used to render services related to logistics and distribution of Company products in United Kingdom.

Entering distribution agreement with Solutions 2 Go, Inc.

A daughter company City Interactive USA entered an agreement in February 2010 with Solutions 2 Go, Inc, with its registered seat in Mississauga, Canada, on basis of which Solutions 2 Go renders distribution services on behalf of the Company. Solutions 2 Go is known for its achievements on the Canadian market.

Agreement with NAVARRE and COKEM

City Interactive USA Inc. entered distribution agreements with the NAVARRE and COKEM companies, which allows financing carrier costs and licence fees for console manufacturers by the contractors.

Agreement with Namco Bandai

City Interactive S.A. entered an agreement for distribution of Sniper Ghost Warrior, Xbox 360 and PC versions, in distribution networks in Netherlands, Belgium, Italy and Spain.

Agreement with Panavision

City Interactive S.A. entered an agreement for distribution of Sniper: Ghost Warrior, Xbox 360 and PC versions, in distribution networks in Scandinavia (Sweden, Norway, Denmark, Finland)

IV. Information about markets, divided into domestic and foreign ones, and about supply sources of production materials, goods and services with an indication of the customers and suppliers dependence.

In the first half-year of 2010 there was an increase in the Company's foreign sales from the level of 73% at the end of last year to 82%. In comparison with the same period of the previous year the increase in that ratio amounts to 5%. It results from an intensive development of the international distribution network. The increase in total sales in relation to a comparable period of 2009 amounts to 34%.

Specification of territorial structure of revenues	Period from 01.01.2010 to 30.06.2010	Period from 01.01.2009 to 30.06.2009
	thousand PLN	thousand PLN
Europe	13 287	13 604
America	7 128	352
Poland	4 559	4 328
Asia and Australia	405.	691
TOTAL	25 380	18 974

In the first half-year of 2010 the Company's sales revenues reached the level of 25.38 million PLN which constitutes 34 % increase in comparison with a similar period of last year. In the drawdown for the first quarter of 2010, a 700 thousand PLN reserve has been created for adjustments and returns. It was fully realized in the second quarter of 2010, and a provision amounting to 1 000 thousand PLN for possible adjustments and returns was created.

ATS Sp. z o.o. is Company's biggest supplier. The value of the sales concluded by the Issuer in the first half of 2010 from the ATS Sp. z o.o. constitutes 7.7% of its sales revenues. ATS Sp. z o.o. is personally related with the Issuer through the main shareholder and the President of the Management Board of City Interactive S.A. who is the sole shareholder of ATS Sp. z o.o.

All transactions concluded among the entities for a total of 1.96 million PLN concerned matters regulated in the agreements concluded in 2008 between the Issuer and the supplier. The most significant one is the framework agreement for the production of computer games. Furthermore, agreements for the financial and accounting services, personnel and wage services, as well as storage and logistic services have been concluded.

Till the end of the first half of 2010, the remuneration due to ATS Sp. z o.o. consisted of the following elements:

a) financial and account services	270 thousand PLN
b) personnel and wage services	55 thousand PLN
c) storage and logistic services	329 thousand PLN
d) computer games services	1298 thousand PLN

For the purposes of conducting business activities by the Issuer, Nintendo of America INC is currently the biggest and the most significant foreign supplier. Nintendo CO. LTD, Microsoft Licensing GP, Technicolor and Duplium. The share of the purchase concluded from this group constituted 16.1% of the sales revenues. Nintendo is a partner who provides the Company with carriers and cartridges, on which products for NDS (Nintendo Dual Screen) and Nintendo Wii consoles created by City Interactive S.A. are distributed and who exercises supervision over their proper quality. The co-operation is conducted in virtue of the signed agreements whose conclusion have been publicly announced by the Issuer by way of current reports. There are no personal or capital relations between this partner and the Issuer.

Microsoft is paid a licence fee for allowing publishing products created by the Company in its own development studios for Xbox 360 console. Every single manufacture item is subject to the above mentioned licence fee. The terms of agreement were announced by the Issuer in current reports.

Manufacturing of the Xbox 360 carriers is conducted, on behalf of the Company, by Technicolor, which has branches in Europe as well as in North America and is approved by Microsoft Licensing GP.

Duplium is responsible for manufacturing carriers for the PC platform and delivering the final product to distributors in North America.

V. Description of factors and events, especially those of a non-typical character, which have a significant impact on the achieved financial results.

In covered period no unusual events which would have significant influence on the performance of City Interactive S.A. have occurred, apart from the ones covered in point IV

VI. Explanation concerning the seasonality or cyclicity of the activities conducted by CITY INTERACTIVE S.A. in the presented period.

Due to various sources of revenues (domestic distribution, colportage, foreign distribution, the sale of licenses) and the specificity of this line of business the Company is characterised by a relatively stable distribution of sales revenues during the financial year with a slight intensification thereof in the IV quarter.

VII. Essential risk and threat factors concerning the Company

These are the most significant external risk factors from the point of view of the Issuer:

The risk connected with the macroeconomic situation

The Company's activity on the consumption and entertainment market depends on the macroeconomic situation in each market. In the last few years the entertainment industry has been developing very dynamically and it is estimated that the value of the video games market exceeded the value of film industry. In order to minimise such risk the Issuer significantly diversifies the geographical sources of its revenues.

Competition risk

The company is operating on a market, where companies with strong, established ground are dominant. City Interactive S.A. has proved that it can be an effective competitor thanks to its greatest assets: experienced team, cost advantage and worldwide distribution network. Company's offer covers all price ranges. Games for Microsoft Xbox 360, Nintendo Wii, Nintendo DS and PC platforms have high marketing potential and will be competitive products present on the market.

The risk of a change in trends

The Issuer operates on the area of new technologies and virtual entertainment in which the life cycle of a product is relatively short. One cannot exclude the risk of the occurrence of new solutions on the market which will make the offered products no longer attractive and will not secure the desired earnings. To minimise the risk, the Company accepted a strategy of following the trends and offering an assortment which has already been verified and is popular with the customers and not a strategy of defining trends which is a much more expensive and risky one. The Company mainly focuses on constant market monitoring regarding new technology developments (e.g. 3D) and filling new segments created by newly developed consoles.

Moreover, the Company, dealing mostly with the lower-cost product segment, has smaller and more elastic project budgets, so it is able to quickly react to changing circumstances and trends. The number of implemented projects causes the differentiation of the offer and reduces the market risk. The Issuer can effectively use market niches thanks to lower break point than competition.

The risk of amendments to the provisions of the law and tax regulations

Very frequent amendments to the provisions of the law and tax regulations in Poland and on other markets may constitute a threat for the business activity. This applies to the regulations and interpretations of the provisions connected with the capital market, the labour law, national insurance, the tax law or regulations concerning the commercial law. The question of the ban on offering violent video games is frequently taken into consideration in some countries. Therefore, there is a risk of an amendment to the international provisions or provisions adapted in some countries in which the Company offers its products which might turn out to be unfavourable in relation to the conducted business activity. The Company also takes actions to eliminate risk by working with specialized law firms from all around the world.

The risk of the exchange rate

At present over 82% of the revenues is generated from the export of goods and services to foreign markets. The sale is settled in foreign currencies, mostly in Euro, but also in the US dollars, Australian dollars and in the Czech koruna. There are no other financial instruments protecting against currency exposure

Currency	sale	purchase
AUD	14 thousand	0.00
EUR	2 592 thousand	1 091 thousand
GBP	311 thousand	144 thousand
USD	2 181 thousand	386 thousand
CZK	247 thousand	0.00

There are following risk factors, directly linked to the Company's activities:

The risk connected with the loss of key consultants

The production is carried out based on the knowledge and experience of the consultants. It is a characteristic feature of the enterprises acting on the video games production market. It is difficult to acquire qualified experts in this field or persons managing projects on the market.

The Company emphasises especially:

- incentive pay system, including medical care and the social package, building ties between the organization and employees,
- issue of the series B shares, intended for employees and associates,
- issue of the series D shares, intended for key employees.

The risk connected with loss of key accounts

The commercial activity is conducted through well-developed retail network channels in Poland and through close cooperation with foreign distributors seated abroad. Consequently, there is a risk that the distribution agreements are terminated or some entities which are involved in the sale of goods go bankrupt (or are under other similar risk).

To minimise the risk of losses, the Company has subsidiaries on most vital markets, like the United States of America, Germany. The role of these subsidiaries is to constantly widen the distribution possibilities of the Group. Currently, the market in the North America is the area of the greatest potential for the Group as it generated approx. 36% of revenues with significant sales resulting from the cooperation with a regional distributor Navarre.

The risk connected with suppliers

The Company and its revenues to some extent depend on the supply of licences for distribution of video games. In the first six months of 2010 the distribution sale of licensed titles exceeded 9% of the total revenues. It is planned to purchase within the group licences covering a wider area (Europe, North America or the whole world), which may involve a price risk or even the possibility of purchasing of such licences.

In order to minimize the risk of dependence of revenues on outside entities, the Company consistently develops its own Games Development Department and tries to establish a regular and long-term cooperation with some production studios.

Microsoft Licensing GP, Nintendo of Europe and Nintendo of America have recently become Issuer's key suppliers, who supply the carriers or carrier licences on which dominant company's Nintendo Dual Screen, Nintendo Wii and Xbox 360 games are recorded on. The Company uses best efforts to fulfil and meet all the obligations under all of the agreements between the entities and the Issuer. Moreover, the said agreements include product hazard insurance regarding Nintendo Dual Screen - amounting 2.2 million USD, Nintendo Wii - amounting 5 million USD and Xbox 360 - amounting 2 million USD. The key element in fulfilling the agreements is to obtain certificates for particular products. The two main supplier-related risks are the certification process and termination of agreement by key suppliers.

The risk connected with implementation of development plans

Financing publishing activity - the Company possesses surplus assets from operation and uses it for development activities of the Issuer. If there is a need to acquire assets for realization of additional projects, the Company has means of acquiring finances from banks or financial sector.

The risk connected with the offered products

Competitive markets are driven by the expectations connected with the release of new products. A risk is involved that some products will be completed later than scheduled, which can negatively affect the generated cash flows due to the fact that project budgets are exceeded and planned sales revenues and cash receipts are actually effected during later accounting periods. Internal factors which can cause delays include, among others, non-compliance of products with quality requirements, notably with regard to DS console products or problems with unproblematic game operation. External factors include, among others, launching on the market of competitive products featuring unique and important qualities, which forces the Issuer to account for the features in his own project in order to stay competitive. External factors also include delays on the part of suppliers in prompt preparation of some items necessary for game creation and development.

The business of producers of entertainment software is known in the world for postponed and delayed launching of computer and console games. Games launched with a delay which nevertheless meet the current quality requirements usually have the same sales potential which they would have had if launched as scheduled. However, the additional time resulting from delays can be utilized to complete the project with new items and features, which will make the oncoming launching day even more attractive. In many cases the marketing effect of the so-called "long-awaited game" comes into effect and positively influences the image of the product. Even though a vast majority of products is completed according to schedule, the risk of delays cannot be excluded completely.

Another issue is the risk of a law suit brought against the Company by an external legal or natural person in connection with copyrights related to games, game components, trademarks, or names reserved for individual products. The risk is particularly high with regard to activities run in the USA, where the legislation is rather tight. In order to avoid losses connected with such situation, each time an application is filed reserving the copyrights to a given game, its title and trademark. On filing such application for protection of trademarks in the European Union and other countries across the world, its availability within individual markets is checked and the risk of violation of third party copyrights is assessed.

At the same time the Issuer takes steps to eliminate products hazards by entering adequate insurance agreements regarding Nintendo Dual Screen - amounting 2.2 million USD, Nintendo Wii - amounting 5 million USD and Xbox 360 - amounting 2 million USD.

The key product-related risk factor is the certification process. Product launch is dependent on it.

The risk of loss of liquidity

Trade receivables provide sufficient cover to discharge the liabilities of the Company. The significant level of receivables is a result of the specific nature of sales on the market on which the Company operates. The purchasers sell the products and cover the company's receivables with the payments made by their purchasers. It is not possible to receive earlier credit payments while the sale by contractors is in progress.

The analysis of the financial standing of purchasers and a continuous monitoring of the incoming receivables are the safety measures taken to prevent the risk of insolvency of customers.

In order to finance the obligations the Company has a line of revolving credit in Raiffeisen Bank Polska S.A. The company finances purchases of core components of the product with these means. This financing form does not include production indirect costs (overheads). - amount used as of balance sheet date: 0.00 PLN.

The Company also has overdraft facilities run by Raiffeisen Bank Polska S.A. amounting to 0.5 million PLN. Amount used as of balance sheet date: 69 thousand PLN.

Business Area Spółka z o.o. - part of the Issuer's holding group entered on 11.06.2010 a factoring and loan agreement, where loan agreement is a part of factoring agreement with financial limit amounting to 1.4 million PLN.

As of 30.06.2010 r. financial usage amounted to: 18 thousand EUR.

Other than that, the Company uses income from operation and financial activity to finance the expenses.

Possible risk could arise from inability to prolong bonds maturity date, but the Issuer is conducting negotiations in order to eliminate the risk factor

VIII. Information on agreements significant for the Issuer's activity, including agreements concluded between shareholders, insurance and co-operation agreements.

1. Agreements that are vital for business activities

- i) On 27 January 2010 Issuer's Management Board established cooperation with The Producers Limited - a company, belonging to Mastertronic Group Limited, with its registered seat in Huntington, United Kingdom. The Producers Ltd. will be providing services related to logistics and distribution of the Issuer's wares in the UK, including the Isle of Man and Ireland. Their provisions do not differ from the conditions commonly used for this type of agreements. The Management Board of CITY INTERACTIVE S.A. estimates that revenue from the sale of video games under the agreement in the period of one year will exceed the level of 10% of the amount of the Company's equity.

- ii) On 7 June 2010 an addendum to the agreement with The Producers Limited - a company, belonging to Mastertronic Group Limited, with its registered seat in Huntington, United Kingdom, has been signed. Regarding the agreement according to which the Producers Ltd. provides services related to logistics and distribution of the Issuer's wares in the UK, including the Isle of Man and Ireland. The addendum prolonged the agreement in force from 31 August 2010 to 31 December 2010. After this day, the agreement will be in force, but both sides can terminate the agreement with a 3-month period of notice.
- iii) Video game Sniper: Ghost Warrior for Xbox 360, game and entertainment platform by Microsoft Licensing GP, successfully passed Microsoft certification process on June 9 2010. This means that the product in both, Xbox 360 and PC versions, has been manufactured and released according to planned release date - 25 June 2010 on most markets in Western Europe, Australia and New Zealand and on 29 June 2010 in USA and Canada.

2. Insurance contracts

CITY INTERACTIVE S.A. holds insurance policies in TU Allianz, AIG Europe S.A., STU Ergo Hestia S.A. and Chartis Europe S.A.

Insurer's name	Object and scope of the insurance	Insurance period	Insurance sum (in thousands)
ERGO Hestia S.A.	Insurance of electronic equipment and external data carriers	15.09.2009-14.09.2010	1 110 PLN
ERGO Hestia S.A.	Property insurance	15.09.2009-14.09.2010	6 273 PLN
AIG Europe S.A.	Civil liability insurance of the Company's Management Board	7.11.2009-6.11.2010	20 000 PLN
AIG Europe S.A.	Civil liability insurance - regarding product operations hazard	01.09.2009-31.08.2010	2 200 USD
Chartis Europe S.A.	Civil liability insurance - regarding product operations hazard	01.01.2010-31.12.2010	5 000 USD
Chartis Europe S.A.	Civil liability insurance - regarding product operations hazard	10.06.2010-09.06.2011	2 000 USD

Moreover, the Company had concluded civil liability and auto-casco insurance policies for the three owned personal vehicles.

3. Agreements between shareholders

The Management Board of CITY INTERACTIVE S.A. has no knowledge about the possible agreements concluded between the shareholders of the Company in 2010.

IX. Information on facility agreements, loan agreements with the indication of their due dates as well as surety and guarantee agreements of City Interactive S.A.

1. Credit and loan agreements

As of 30 June 2010 the Company had entered into the following facility agreements:

name of entity granting credit	Raiffeisen Bank Polska S.A
seat	ul. Piękna 20, 00-549 Warszawa
credit amount according to the agreement	500 000.00 PLN
type	OVERDRAFT; REVOLVING
credit amount pending repayment	69 407.10 PLN
Repayment deadline	28.02.2011
collateral	Cession of rights from receivables + collateral on stock

2. Factoring agreements

Business Area Spółka z o.o. - subsidiary, entered on 11.06.2010 a factoring and loan agreement, where loan agreement is a part of factoring agreement with financial limit amounting to 1.4 million PLN.

As of 30.06.2010 r. financial usage amounted to: 18 361.18 EUR

3. Leasing agreements

On 30 June 2010 the Company have had signed the following leasing agreements:

- financial lease agreement with Raiffeisen Leasing Polska S.A., which initial value amounted to 46.5 thousand PLN and due principal rates as of the balance date amounts to: 9.5 thousand PLN
- an agreement regarding financial lease concluded with Volkswagen Leasing Polska S.A. which initial value amounted to: 75.5 thousand PLN and due principal rates as of the balance date amounts to: 14 thousand PLN
- three financial lease agreements concluded with SEB Leasing Polska Sp. z o.o. which initial value amounted to: 558.8 thousand PLN and due principal rates as of the balance date amounts to: 152 thousand PLN

4. Surety and guarantee agreements

The company has given the following guarantees: collateral for meeting the requirements of lease agreements in a form of blank promissory notes and collateral for meeting the objectives of factoring agreement entered by Business Area Spółka z o.o. in form of blank promissory note.

X. Information on granted loans

In the beginning of 2010 subsidiary, City Interactive USA Inc., had a debt in favour of the parent company in form of loans amounting to 448 420 USD. The loan has been used to finance the purchases from Nintendo of America. By the end of the first half year of 2010 the principal amount has been paid in full.

XI. Information on organisational or capital connections

In 2008, CITY INTERACTIVE S.A. acquired shares in the following entities, which constitute long-term investments:

- **CITY INTERACTIVE GERMANY GmbH** – company with its seat in Frankfurt, Germany, instituted before a notary on 8 February 2008 The shares in that company were registered by

the District Court in Mönchengladbach on 25 March 2008 (share capital amounting to EUR 25 000). The company is subject to consolidation since the second quarter of 2008.

- **CITY INTERACTIVE USA Inc.** -with its registered seat in Delaware, the United States of America. The company was established by CITY INTERACTIVE S.A., which acquired 100% of its shares on 27 March 2008. The present share capital amounts to USD 50 000. The company is subject to consolidation since the second quarter of 2008.

- in the reported period the Issuer was holding 100% shares of the newly created entity under firm **Business Area Spółka z o.o.**, included into consolidation starting current report period. **Business Area Spółka z o.o.** conducts activity regarding acquisition of financial assets in factoring form.

In February 2009, the Issuer registered **CITY INTERACTIVE UK Ltd**, a company under the British law with its registered seat in Manchester, England. Share capital amounts to 100 GBP. 100% of shares belong to City Interactive S.A. The company is not subject to consolidation, because its financial records are not material for establishing Issuer's financial status.

- **CITY INTERACTIVE SPAIN S.L.** – company based in Madrid, Spain. The Issuer purchased 100% of shares in the company on 22 September, at their nominal price of EUR 3,600. The Company has been under consolidation since Q4 2008. The issuer decided to discontinue direct activities. In the covered period the issuer has decided to stop indirect activity in Spain. In the first quarter of 2010 the Company has been excluded from consolidation. Its financial results are insignificant, taking into account the scale of activity of the Capital Group.

Moreover, in 2008, the Company purchased shares in following entities in Latin America and has later on in 2008 and 2009 resigned from their further development. Currently, these entities are not subject to consolidation because of cessation of their activities and the creation of reserves at the level of the company.

- **CITY INTERACTIVE PERU SAC** – company with its seat in Lima, Peru. Special purpose vehicle, set up to the order of CITY INTERACTIVE S.A. The Issuer purchased 99% of its shares on 6 March 2008 at nominal price. The share capital of the Peruvian company consists of 6 000 shares of a nominal value of 1 sol each. The company was under consolidation from the moment of purchase of a controlling shares package until the end of 2008.

In October 2008, the Management Board of CITY INTERACTIVE S.A. made a decision to discontinue the business activity of **CITY INTERACTIVE PERU SAC**. The Issuer aims to completely liquidate or sell the shares of this company in 2009. In the first quarter 2009, the Company was excluded from consolidation in view of discontinuation of its operational activity and establishment of reserves in the unitary statement of the parent company.

- **CITY INTERACTIVE JOGOS ELETRONICOS LTDA** – company with its seat in Sao Paulo, Brazil. The company registered on 9 October 2008 with the share capital of 100 000 Brazilian reals which consists of 100 000 shares with the nominal value of one real each. The Issuer acquired 90% of shares; the remaining 10% were acquired by CITY INTERACTIVE USA Inc. In February 2009, the Issuer made a decision to discontinue direct business activity in Brazil. Therefore, it does not plan to consolidate the financial statements of the company with its seat in Sao Paulo. Its financial results are insignificant, taking into account the scale of activity of the Capital Group.

- **CITY INTERACTIVE MEXICO S.A. de C.V.** – company with its seat in Mexico City, Mexico. The Company registered on 8 December 2008 with the share capital of 50 000 Mexican

pesos which consists of 100 shares with the nominal value of 500 pesos each. The Issuer holds 95% of shares in the company; the remaining 5% were acquired by CITY INTERACTIVE USA Inc. In February 2009, the Issuer made a decision to discontinue direct business activity in Mexico. Therefore, it does not plan to consolidate the financial statements of the company with its seat in Mexico. Its financial results are insignificant, taking into account the scale of activity of the Capital Group.

XII. Information on issue, redemption and repayment of debentures and capital securities

In the reported period the Company did not issue non-share and capital securities.

In the third quarter of 2009, the Company issued bonds for 5 million zlotys. The nominal value of a single bond is 50 000.00 PLN. These bonds are bearer documents. The day of redemption is 16 September 2010. The interest rate is 12% per year. The sum of interests to be due as of 30.08.2010r.amounts to 24 657.53 PLN.

XIII. Information regarding the paid (or declared) dividend, in total and per share, with division into ordinary and privileged shares

In the reporting period, no dividend payment was declared and no dividend was paid.

XIV. Information regarding changes of conditional liabilities or conditional assets which took place since the end of the last accounting year.

As of 30 June 2010 the Company did not have any contingent liabilities except from bills of exchange issued by CITY INTERACTIVE S.A. for leasers: Raiffeisen Leasing Polska, Volkswagen Leasing Polska and SEB Leasing Polska for securing the payments stipulated in concluded leasing contracts and blank letters of guarantee issued by Business Area Sp. z o.o., a subsidiary, securing the factoring agreement and loan agreement entered on 11.06.2010 by and between Business Area Sp. z o.o, and Fortis Commercial Finance Sp. z o.o.

On 02.03.2009, the Company has signed addendum no. 1 to the registered lien agreement on working capital which sets the maximum amount of bank debt security of Raiffeisen Bank Polska S.A. for 8.7 million PLN. The registered lien agreement is associated with the receivables transfer agreement from 24 September 2008 between City Interactive S.A. and Raiffeisen Bank Polska S.A. On 29 October 2009 the Company concluded addendum no. 3 to the credit agreement from 24 September 2008 and addendum no. 6 to the debt limit agreement from 24 September 2008 with Raiffeisen Bank Polska S.A. The total credit limit, according to these changes, is 3 800 000 PLN. Also, addendum no. 2 to the registered lien agreement on working capital from 20 November 2008 was signed on the same date. The lien now amounts to 5.7 million PLN.

XV. Opinion of the Management Board of the Company regarding the possibility to meet the result forecasts published earlier for the given accounting year, in the light of the results presented in the semi-annual report regarding the forecast results.

Issuer's Board has issued a current report No. 44/2010 dated 06.07.2010 estimating the amount of consolidated income of the Holding Group for the second half year of 2010. In the current report No. 49/2010 dated 26.07.2010 the Board made public additional information

regarding the predicted income assumed in the above mentioned estimation. Plan execution looks as follows:

- in the first quarter of 2010 consolidated net income amounted to 11.42 million PLN - in the second quarter of 2010 consolidated net income amounted to 17.45 million PLN.

Net income includes all adjustments, returns and provisions.

XVI. Characteristics of factors significant for the development of City Interactive S.A. and description of the perspectives for the development of business activity.

The Issuer is successfully employing a growth strategy, which aims at regular releases of high quality games. In the future game production, promotion and manufacturing, quality will be the main factor in product planning and development. In the opinion of the Issuer's Management Board, the following will bring about a significant improvement of results of the City Interactive S.A. capital group, which will be visible in the financial statements for the second half of 2010 and in the successive years.

The Company releases more and more games for the new generation consoles. It is a step towards main global markets, where console-related products are the majority of sale. In 2010 the Issuer's portfolio will include even more games designated for consoles. According to the Board this will result in strengthening Company position on global markets.

An important factor for further growth is the global success of "Sniper: Ghost Warrior" game, which significantly widened Group's distribution capabilities regarding all of the products. Success has a major influence on increased number of Issuer's game orders by distribution networks worldwide as well as in Poland. The Board believes that next well-developed high quality products will improve distribution capabilities even further.

According to the Board, this strategy and the following Issuer's decisions will contribute to further financial successes of City Interactive S.A.:

In August 2010, City Interactive S.A, with its registered seat in USA, subsidiary of CITY INTERACTIVE S.A., has entered a licence agreement with Sony Computer Entertainment America LLC for manufacturing and publishing PlayStation3 games on North America market. Issuer's Board believes the agreement to be of strategic importance. PlayStation3 is one of the world's most popular gaming platforms. Holding group is taking actions to broaden the licence for the European region.

Change of scope of operation in Rzeszów, its basic activity will be focused on producing action games (based, among others, on experience gathered while making Sniper: Ghost Warrior) is supposed to ensure Company's financial success. The Rzeszów team is second, after the one in Warsaw that creates action games.

The Board plans to exploit the content in every possible way. The Issuer has, among others, undertaken activity on Smartphone application market, including iPhone applications. The first released game is Chronicles of Mystery for iPod/iPhone/iPad platforms.

In August 2010 the Company entered an agreement with THE FARM 51 Spółka z o.o. with its seat in Gliwice, regarding crating and publishing a new video under work title "Alien Fear".

This shooter game, set in sci-fi convention with elements of horror will be released on new generation consoles and PC. Release is planned for 2011.

The Company is planning to launch two titles with very high marketing potential in 2011. The first will be another game of the team responsible for Sniper Ghost Warrior. The other is developed by an independent studio. The Issuer has undertaken steps to acquire the title from a third party on the grounds of publishing activity.

Another important factor which will improve Issuer's results is the growth in international sales. The Issuer has established cooperation with The Producers Limited - a company, belonging to Mastertronic Group Limited, based in Huntington, the United Kingdom. The Producers Ltd. will be providing services related to logistics and distribution of the Issuer's wares in the UK, including the Isle of Man and Ireland.

North American market will provide the largest share of Company's revenues in the first half of 2010. The United States constitutes the biggest video game market in the world. The Issuer has active commercial relations with all major retail chains that have their video games on offer. Sniper: Ghost Warrior, published in June 2010 has achieved excellent sales results, better than Nintendo DS game, Chronicles of Mystery launch in 2009, up to now the best selling Company's console product in the USA and elsewhere in the world. This is a confirmation of the decision on changing strategy being right. The new strategy involves releasing a greater number of high quality games. The success of Sniper: Ghost Warrior shows Issuer's capabilities to introduce its products to top best-seller lists in major markets thanks to worldwide sales and marketing offices.

In the second half of 2010, the Issuer will continue with further intensification of sales in the major world sales markets.

The development of the Capital Group of CITY INTERACTIVE S.A.

In Board's opinion, the Holding Group has the means necessary to creating and publishing high quality games for new generation consoles and PC platforms with high marketing potential and being competitive for other products present on the market. The Group expects that most of them will achieve success, which will lead to a significant increase in financial results. At the same time CITY INTERACTIVE is maximizing revenues from previously released games. Thanks to, among others, those actions, the Holding, despite postponing major releases to following quarters, reached high sales numbers in the first quarter of 2010.

Below – a release schedule for the period from July until December 2010

TITLE	FORMAT	GENRE	RELEASE
Jewels of Tropical Lost Island	NDS	Adventure logic	AUGUST 2010
Farm Frenzy: Animal Country:	NDS	Economic game	AUGUST 2010
Chronicles of Mystery: The Legend of the Sacred Treasure	PC	Adventure	SEPTEMBER 2010
Art of Murder: The Secret Files	PC	Adventure	SEPTEMBER 2010

Crime Lab:Body of Evidence/Art of Murder: FBI Top Secret	NDS	Adventure	SEPTEMBER 2010
Sniper: Ghost Warrior: DLC1	PC, XBOX360	Action game	SEPTEMBER 2010
Combat Wings: The Grates Battles of WW II	Wii	Arcade game	OCTOBER 2010
Vampire Moon: The Mystery of the Hidden Sun	NDS	Adventure	OCTOBER 2010
Chronicles of Mystery: Secret of the Lost Kingdom	PC	Adventure	OCTOBER 2010
Sniper: Ghost Warrior: DLC2	PC, XBOX360	Action game	NOVEMBER 2010
Art of Murder: New York Stories	PC	Adventure	NOVEMBER 2010
Chronicles of Mystery 2	NDS	Adventure	DECEMBER 2010.

XVII. Changes in the make-up of managing and supervisory bodies in the first half of 2010.

Management Board of CITY INTERACTIVE S.A.

Mr Marek Tymiński performed the function of the President of the Management Board for the entire first half of 2010.

Mr. Artur Winiarski performed the function of the President of the Management Board for the entire first half of 2010. A resolution appointing him as a Member of the Management Board was passed on 28.07.2009. The above mentioned alternations have been registered at KRS.

Supervisory Board of CITY INTERACTIVE S.A.

The Supervisory Board of the Company continued in the same make-up through the first half of 2010:

Krzysztof Sroczyński	Chairman of the SB
Grzegorz Leszczyński	Member of the SB
Marek Dworak	Member of the SB
Lech Tymiński	Member of the SB
Tadeusz Kirstyn	Member of the SB

Mr. Grzegorz Leszczyński has been appointed Member of the Supervisory Board on 12.08.2009 by the resolution of NWZA, when the resignation of Mr. Marek Wierzbowski from the position of Member of the Supervisory Board came into force.

XVIII. Indication of shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting of Shareholders of the Company.

The shareholders of CITY INTERACTIVE S.A. as of 30 August 2010 (the day of publication of the interim report for the first half of 2010):

Company's share capital amounts to 1 265 000 (in words: one million two hundred and sixty five thousand) zlotys and is divided into 12 650 000 shares of 0.10 PLN value each.

Total number of votes at the general meeting amounts to 12 650 000 votes.

According to Issuer's best knowledge, on the day of filing the report for the first quarter of 2010, the below mentioned shareholders hold at least 5% of votes on the Company's general meeting:

Aviva Investors Poland SA holding 696 568 Issuer's shares amounting to 5.51% Issuer's share capital and total number of votes on Company's general meeting and Mr. Marek Tymiński. Mr. Marek Tymiński holds 7 241 481 Issuer's shares, amounting to 57.24% Issuer's share capital and total number of votes on Company's general meeting

The Company has no knowledge about any agreements (including those concluded after the balance sheet date) as a result of which changes in the proportion of shares held by the current shareholders could occur in the future.

XIX. Information on the agreements with the entity authorised to inspect the financial statements.

- a) Name of the entity: Misters Audytor Sp. z o.o.
- b) The date of concluding the agreement for the inspection of the unitary financial statements for 2009 – 30 June 2010 The Agreement refers to the inspection of the financial statement of the Company and the Capital Group for 2010 (semi-annual review and annual inspection).
- c) Total amount of remuneration due for review and inspection of the financial statement of the entity and the Group in 2010 – 38 800 PLN net.

Marek Tymiński

Artur Winiarski

.....
President of the Board

.....
Member of the Board

Warsaw, 30 August 2010.