Sportingbet Plc
Annual Report & Accounts 2004/05

A year of growth securing a strong future

sportingbet Plc®

Commentary

Financial Statements

Results

Acorns

Just as a small acorn turns into a strong oak, the Sportingbet Group has grown to become a worldwide leader in the eGaming industry. In Scandinavia the acorn is seen as a good luck charm which, if placed on the windowsill of a home, wards off lightening strikes and protects the household from evil.

Welcome

"Good luck helps in all forms of gambling but running a successful online gambling company requires strong management and good business sense."

Welcome to our 2004/05 Annual Report in which we feature a selection of the diverse charms and symbols used by our worldwide customers to bring them good luck.

We, however, prefer to rely upon a proven business model and a hard working and experienced management team to deliver our success.

Our strategy of offering a wide range of betting and gaming products via localised websites reflecting local cultures under one roof continues to bring us success – as this report shows.

This year has been both exciting and challenging. We have delivered strong growth across all our regions, successfully integrated Paradise Poker into the business and created 'shared purse' technology allowing our customers to play multiple products using just one account.

Sportingbet Plc continues to be a leader within the industry. Our vision is to provide exciting and entertaining gambling opportunities to adult customers across the world in a safe, regulated and secure environment.

We will continue to drive forwards in pursuit of this vision, using our management skill, determination and energy as we build on this year's success.

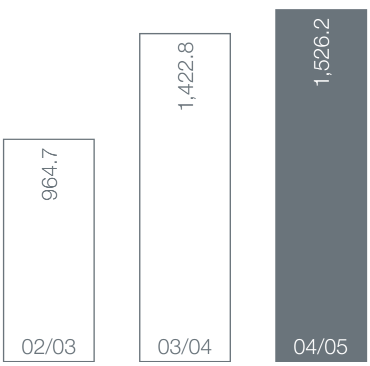
Nigel Payne
Group Chief Executive

Chinese Coin
These Chinese coins were once part of the monetary system. Although no longer in use, they have come to symbolize wealth and good fortune. The symbols on each coin are unique to a purpose and denote different types of good luck.

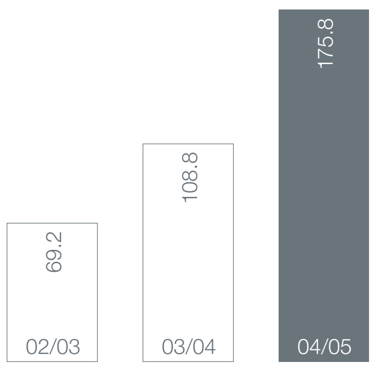
Highlights

Financial highlights●

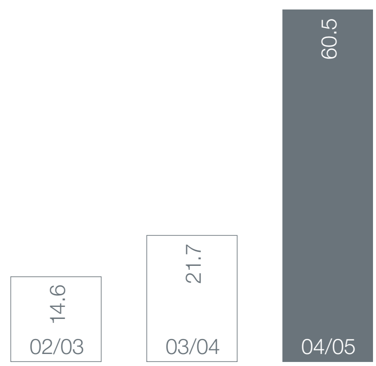
Trading turnover ○
£1,526.2 million



Gross margin ○
£175.8 million

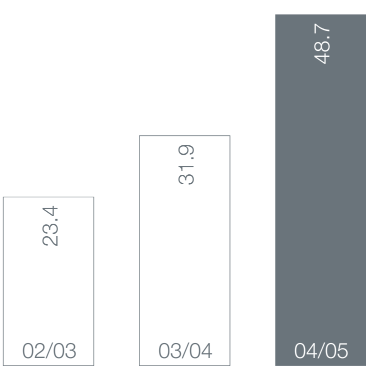


Operating profit ◉
£60.5 million

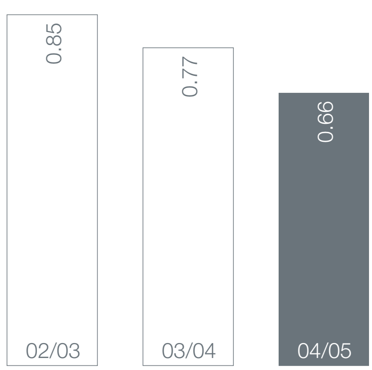


Business highlights+

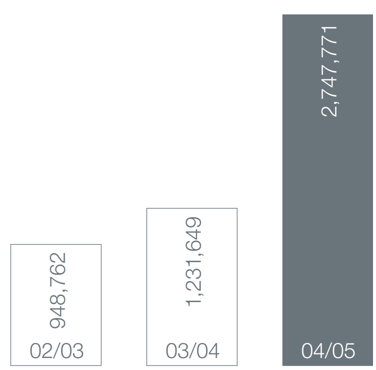
Sports bet volumes (millions)
Up 53%



Cost per £1 of standard gross margin
Reduced 14%



Number of registered customers
Up 123%



● Financial Results 02/03 are for the 12 months ended March 2003 and the Financial Results 03/04 are for the 16 months ended July 2004.

○ Due to changes in Group accounting for certain customer bonuses, financial figures for 02/03 and 03/04 have been restated. See note 2 to the financial statements for more information.

◉ Operating profit before exceptional items and goodwill amortisation.

+ Business highlights have been prepared for 12 months to 31 July.

Four Leaf Clover

As a universally accepted symbol of good luck, each of the four leaves has a symbolic meaning: one leaf is for hope, the second for faith, the third is for love and the fourth for luck.

Chairman's Statement

"Our strategy of providing customers with a wide range of safe, online gambling opportunities via localised websites under one virtual roof is delivering real shareholder returns."

We are delighted with the performance of the business this year. Our strategy of providing customers with a wide range of safe, online gambling opportunities via localised websites under one virtual roof is delivering real shareholder returns. This past year has been made particularly special by the realisation of this vision for Sportingbet.

During the 12 months ended 31 July 2005, through a combination of strong organic growth and acquisition, the scale of our operations has increased materially. We achieved record profits and at the same time launched a number of new products and entered several new markets. Our European business alone is now spread over 26 markets. We have also significantly strengthened our management team during the year. With diluted earnings per share increasing 104% over last year to 13.9 pence a share, we are pleased to recommend a maiden dividend of 1.0 pence per share.

We now have over 2.7 million registered customers, who placed 400 million sports and gaming bets in the year, up 51%, and generated an 89% increase in daily poker rake. We are particularly pleased with the Group's customer dynamics, which have remained in line with previous years despite the increase in the scale of the business. Important indicators, such as customer acquisition cost and attrition rates, bet size and bet frequency, have either remained in line with last year or in some cases improved. The stability of these indicators demonstrates the power of Sportingbet's multi-product, global offering and our ability to drive organic growth cost efficiently, without compromising the quality of customer attained.

The benefits of the increased scale of our business across a multi-product "one-stop shop" environment have been clearly demonstrated. Further, I am pleased to report that we have also experienced strong organic growth during the beginning of the new financial year and consequently continue to view the future with confidence. New customer signups, sports bets and poker games are all at record levels.

I would like to take this opportunity to thank all of our employees whose loyalty and hard work is instrumental to our success.

Peter Dicks
Chairman

In conversation with Nigel Payne
Group Chief Executive

Nigel Payne reflects on a successful year, shares his vision for the future and comments on pressing issues facing the eGaming industry.

So Nigel, what were the year's highlights?
We doubled in size. We achieved record profits. We announced our first dividend. We strengthened our management team. We launched new products. We expanded into new areas.

These were the obvious highlights, but it was the realisation of our vision for Sportingbet that made the year so special.

How would you describe this vision?
Imagine walking into a 24/7 virtual gaming supermarket – a supermarket that exists at any point in time, in any country in the world, where the staff speak any language and the cashiers take any currency. When you walk into this supermarket you need just one credit card, just one account to pay for everything.

“I think we’ve made significant progress in helping people understand the industry. We’ve also made good progress in helping them understand that this is an industry crying out for regulation.”

If you walk down the aisle that says ‘Sports Betting’ you can choose basketball betting, football betting or a whole range of other sports. If you go down the next aisle you can choose from all the casino products and if you walk down another aisle it has skill games like backgammon, chess and poker. There is no need for customers to go anywhere else when they can find everything they want under one virtual roof.

Now imagine that this virtual supermarket has many clones. The structure of each supermarket is the same, with all the virtual products, but you have an identical copy of it in French, German and Spanish.

That’s the analogy. That’s our vision. A worldwide virtual supermarket with the world’s widest choice of online gambling products. This year we’ve made enormous strides towards delivering this multi-product, multi-lingual, multi-brand gaming experience to our global customer base.

The core business in Europe, the USA and Australia have all performed well this year but are you looking at new markets?
As we move forward, we’re looking at opening new virtual gaming supermarkets in new areas such as South America and South Africa. We may well take another look at Asia. And we’ll be expanding our offer within the supermarket when new products such as skill games become proven profit streams.

Your supermarket may be virtual, but don’t you face real regulatory issues?
We do, especially in America, where we’re calling for proper regulation of online gambling. I’ve spent a lot of time during the past year in the States. I’ve made presentations to the staff of the Senate Banking Committee, the staff of the Senate Judiciary Committee and to many Senators and Congressmen.

I think we’ve made significant progress in helping people understand the industry. We’ve also helped them understand that this is an industry crying out for regulation and I think the consensus view is now, that any remaining thoughts of outright prohibition will simply never work.

However, we’ve made little progress in overcoming what is now an issue of politics. Getting politicians in the US to acknowledge that our industry needs to be regulated is one thing; getting them to actually stand up and say ‘I’m going to vote for regulating gambling in this country’ is still difficult.

A successful expansion into the Czech market has been one of our highlights this year.

"We believe Paradise Poker has the potential to become a truly global poker brand and we have made good progress this year in building awareness and usage and in expanding its geographical reach."

At the same time, with the World Trade Organisation supporting Antigua's free trade case against the USA and with the UK regulating online gambling, we're in a much better position. It's also significant that Nevada has now passed a wireless bill effectively allowing gambling on the Internet. Internet gambling on horse racing is also legal in most of America.

All in all, it's a very confused situation. It doesn't make a lot of sense to us and I don't think it makes a whole lot of sense to most US politicians today.

And what about the regulatory position in Europe?
Here in Europe, the position has got worse during the year. Europe has become embroiled in politics and the lack of a unified Europe in relation to our industry is really coming to the fore. Countries with monopolistic lottery operations don't want Internet gambling, while countries without lottery monopolies do. There's total disagreement and the European Commission in Brussels needs to bring some clarity to the situation.

Regulation leads on to responsibility. What's your stance on social responsibility?
We've always taken our social responsibilities very seriously. We've now set up a board-level Social Responsibility Committee and we're undertaking a worldwide training programme covering all areas of the business. Our focus is to ensure that we provide what we call a 'protected entertainment environment'. This involves enhancing staff training particularly to customer facing people, to ensure they are prepared to deal with any issues involving problem gambling or attempts to access the system by underage people.

We have already made good progress, with many of our businesses incorporating age checks where they are available. All businesses have a targeted development programme to ensure that we are offering access to the best available checking systems.

This approach contrasts dramatically with the identity checks at 'bricks and mortar' gambling establishments. It may be difficult, but imagine I'm 16 years old. I've got $500 in my pocket and I'm walking into a land based casino. I'm 6ft 3ins tall but I'm just 16. I'm in a US casino. How old am I? Unless I am asked, frankly you don't know. Are you going to stop me spending that $500 in a slot machine? Unlikely. Where did I get my $500 from? You don't know.

This year saw the launch of our website www.sportingbetplc.com. The site gives an overview of our business and includes a comprehensive investor relations section.

“Sportingbet was voted Growth Company Investors’ AIM Company of the Year, World Online Gambling Law Report’s Operator of the Year and eGaming Review’s Number 1 Company.”

Sports bets*

Europe	
03/04	10.9 m
04/05	20.2 m

USA	
03/04	19.0 m
04/05	25.4 m

Australia	
03/04	2.0 m
04/05	3.0 m

*12 months to 31 July

In November 2004 Sportingbet acquired Paradise Poker. Now, almost 12 months on, how has the integration gone?
Personally I’m delighted with the integration. Paradise has been a strong addition to our ‘supermarket’ and the integration process has gone incredibly smoothly. We have retained 100% of the staff and our overall poker business has continued to grow strongly throughout the year.

We believe Paradise Poker has the potential to become a truly global poker brand and we have made good progress this year in building awareness and usage and in expanding its geographical reach.

How has the rest of the business performed Nigel?
Our organic growth rate is at record levels across all of our key performance indicators. Let’s take sports bets as an example: in Europe we grew 86%, in the US 34% and in Australia 53%. We are taking more sports bets across the Group today than ever before.

Finally, on a personal note, were you pleased to be named ‘Online Gambling Personality of the Year’?
This year my role has become increasingly outward facing as a spokesman for Sportingbet. The industry itself has begun to attract far more external interest so I seem to spend a huge amount of time dealing with the investment community and talking to regulators around the world which has raised my profile. My firm belief is that eGaming is here to stay and the only way forward is as a fully regulated industry.

Sportingbet was also voted Growth Company Investors’ AIM Company of the Year, World Online Gambling Law Report’s Operator of the Year and eGaming Review’s Number 1 Company. Whilst it is always rewarding to be judged a success by our peers, ultimately it is the results of the Company that matter most. Fortunately this year we have had both.

Nigel Payne
Group Chief Executive

The Evil Eye

Unlike other sources of good luck, where good fortune resides in the possession of the object itself, the power of the Evil Eye amulet resides in its capacity to ward off misfortune. Also known as Nazar Boncugu in Turkey this object is believed to absorb bad energy and protect you from bad luck.

Operational Review

"I am delighted to report a record performance for Sportingbet this year, a period in which the scale of the Group's operations has increased significantly."

Sportingbet Group

For the review of operations the comparatives are all for the 12 months ended 31 July 2004 and the financial information provided is prior to the customer bonus adjustment of £12.5m (12 months to July 2004: £7.1m). In the 12 months ended 31 July 2005, Sportingbet has seen a scale change in its business. The number of registered customers has risen by 1,516,122 to 2,747,771 (771,197 new customers from organic growth and 744,925 from the acquisition of Paradise Poker). The increase in customer numbers, augmented through a broader product range, increased market penetration and the roll-out of the Group's "one-stop shop" technology platforms, has yielded benefits across the Group.

The number of sports and gaming bets placed has risen sharply by 134.4m (50.6%) to 399.9m (2004: 265.5m). Poker activity too has grown sharply, with the average number of games played per day on Paradise Poker throughout the year rising by 66.3% to 1.0m (pro forma 2004: 0.6m).

As well as the scale change in its business, the Board is particularly pleased with the Group's customer dynamics, which, even on a considerably enhanced scale have remained broadly constant with previous years: important indicators such as customer acquisition cost, bet size, bet frequency and attrition, have either remained broadly in line with last year or in some cases improved. The Board believes that the stability of these indicators serves to emphasise the continued importance of volume growth and the resultant deliverability of incremental profits, whilst at the same time demonstrating that organic growth is being achieved cost efficiently and without compromising the quality of customer attained. In line with the increased volume activity, the cost base of the Group has scaled with operating costs per unit falling by 14.4% to £0.66 per £1 of standard gross profit (2004: £0.77).

In the 12 months ended 31 July 2005, margin performance has been good across the Group. The sports margin percentage was 5.5% (2004: 5.3%). Margin from casino, gaming and fee income rose by £19.2m (49.2%) to £58.2m (2004: £39.0m). Margin from Poker was £51.7m. Of this, £44.3m related to Paradise Poker and £7.4m related to Sportingbet's other Poker platforms (2004: £1.2m).

Europe

The Board has been particularly pleased with the performance of the European region this year. The business now operates in 26 markets, serving customers in 21 languages. Sportingbet has established a brand presence in each of its chosen markets and this brand awareness, leveraged off a significantly enhanced product range, has helped the region deliver substantial growth and profitability. For the 12 months ended 31 July 2005 the region's key performance indicators have advanced well ahead of the Board's expectations and at a significantly faster pace than in previous periods.

The number of customers who bet on the region's sports betting websites rose by 54.8% to 245,215 (2004: 158,363). The European region now has more active customers than any other part of the Group. The number of

Europe has successfully expanded into 26 markets. Miapuesta serves the Spanish market and is one of our most popular websites.

SuperHiLo

The Super Hi-Lo game has proven to be one of this year's European gaming success stories.

Europe; number of Gaming Bets*
Increased by 139%

03/04	39.0 m
04/05	93.0 m

*12 months to 31 July

The Wishbone
Derived from a Roman custom, the wishbone has long been a symbol of good luck. In its intact form, the wishbone itself does not have a special significance but it holds the promise of luck to the person who gets the longer portion when it's pulled in two.

Operational Review

> "The stability of these indicators demonstrates the power of Sportingbet's multi-product, global offering and our ability to drive organic growth cost efficiently, without compromising the quality of customer attained."

sports bets placed by these customers rose by 85.6% to 20.2m (2004: 10.9m) at a rate of 83 bets per active customer per annum (2004: 69 bets).

The average sports bet size was constant within each individual market, though fell marginally overall to £13.3 (2004: £15.3) reflecting the Group's increased penetration into new but lower staking European countries. The overall sports margin percentage after betting tax was 7.9% (2004: 7.8%).

The number of customers who bet on the region's gaming websites rose by 105.4% to 59,596 (2004: 29,019). The number of gaming bets placed by these customers rose by 139% to 93.0m (2004: 39.0m) at an average bet size of £5 (2004: £4). The gaming margin percentage was constant at 3.8% (2004: 3.8%).

Notwithstanding this significant scale change in volume, the cost of acquiring customers continues to be cost effective at £137 per active new customer (2004: £108), giving a cash payback in under six months. This cost increase includes brand launch costs into new markets.

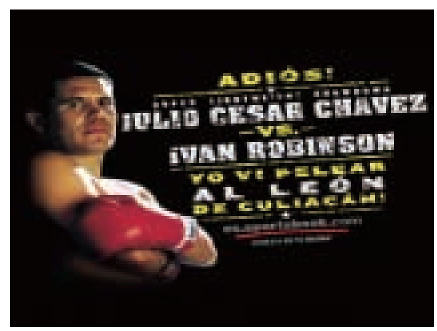
In order to support the rapid expansion within the European region, the Board has invested heavily in augmenting the operating infrastructure of the region; particularly marketing, information technology and management. This increased investment has left unit cost stable compared with the 12 months ended 31 July 2004, at £0.92 per £1 of standard gross profit (2004: £0.92).

America

The US region has been the core of the Group for several years and it has delivered record performance year after year. The benefit of continued strong organic growth and new product streams have delivered another record year across most performance indicators.

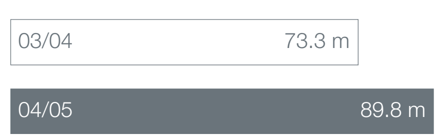
In the 12 months ended 31 July 2005, the number of customers who bet on the region's sports betting websites rose by 31.4% to 188,856 (2004: 143,689). The number of sports bets placed by these customers rose by 33.7% to 25.4m (2004: 19.0m) at a rate of 135 bets per customer per annum (2004: 132 bets). The average sports bet size was relatively constant at $58 (2004: $60). The sports margin percentage was within normal operating parameters at 6.1% (2004: 6.5%). The number of customers who bet in the region's gaming websites rose by 39.3% to 111,919 (2004: 80,363). The number of gaming bets placed by these customers rose by 32.7% to 258.2m (2004: 194.6m) at an average bet size of $11 (2004: $12). The gaming margin percentage was constant at 1.9% (2004: 1.9%).

The cost of acquiring new active customers has fallen to $368 per new active customer (2004: $391), yielding a cash payback period of less than three months. Unit cost has also fallen by 14.0% to £0.60 per £1 of standard gross profit (2004: £0.70).



Sportsbook.com's televised sponsorships this year included the Atlanta Grand Prix and several high profile US boxing events.

America; Sports Margin (US $)*
Increased by 22%



*12 months to 31 July

The Horseshoe

The belief in the protective power of the horseshoe dates back to the ancient Greeks. Nailing a genuine horseshoe over the door of your home protects everyone inside and brings good luck. In some countries like Britain, Ireland and America the horseshoe is hung with the prongs up so that the luck “doesn’t run out”. In Germany, Scandinavia, Italy and Spain it is hung prongs down so the luck “runs over” whoever walks beneath the door.

Operational Review

> "We are particularly pleased with the Group's customer dynamics, which have remained in line with previous years despite the increase in the scale of the business."

Australia

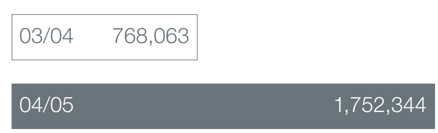
The 12 months to 31 July 2005 have been a period of change for the Australian region. During the year the Board has made a concerted effort through its strong local management team to transition the business from being a primarily telephone based betting operation to one in which internet betting is increasingly important. In addition, a thorough business review has been conducted, importing best practice from the other regions.

The Board is particularly pleased with the progress that has been made to date. During the 12 months ended 31 July 2005, the percentage of bets taken over the internet has risen to 60.1% (2004: 43.1%). The increased internet focus, augmented through the introduction of a new suite of sports internet products, a new website, improved risk management tools and increased marketing spend, has improved the business significantly. These actions, together with improved sports results, have increased sports gross margin after betting tax to 2.3% (2004: 1.7%).

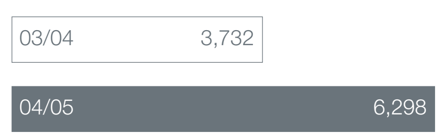
In the 12 months ended 31 July 2005, the number of customers who bet on the region's sports betting website rose by 68.8% to 6,298 (2004: 3,732). The number of sports bets placed by these customers rose by 52.9% to 3.0m (2004: 2.0m) at a rate of 482 bets per customer per annum (2004: 532 bets). The average sports bet size was lower at AUS$301 (2004: AUS$408), reflecting the increased activity on the more leisure oriented internet platform. The cost of acquiring a new active customer fell to AUS$917 per new active customer (2004: AUS$966), yielding a cash payback of under nine months. Unit cost also fell by 24.7% to £0.55 per £1 of standard gross profit (2004: £0.73).

A new website design and an enhanced product offering has increased the number of internet bets in Australia.

Australia; number of Internet Bets*
Increased by 128%



Australia; Active Sports Bettors*
Increased by 69%



*12 months to 31 July

The Ladybird
In many cultures ladybirds are believed to bring good luck. To English and French farmers they signal good weather. It is generally thought that if one lands on a person's hand or clothing it will bring good fortune. The more spots on the back the better the luck as each spot represents a lucky month. In Europe, people believe that if a girl catches a ladybird and it crawls across her hand she will be married within a year. The direction that the ladybird flies away will be the direction from which her future husband will come.

Operational Review

> "We now have over 2.7m registered customers who placed 400m sports and gaming bets in the year, up 51%, and generated an 89% increase in daily poker rake."

Paradise Poker

Sportingbet completed the acquisition of Paradise Poker on 3 November 2004. During the period ended 31 July 2005, all aspects of the integration of Paradise Poker have been completed in the US, including the cross-selling "shared purse" technology, which was introduced at the end of July 2005.

Since acquisition Paradise Poker has performed strongly and has exceeded the Board's expectations across all of its performance indicators. Compared to the pro-forma 12 months ended 31 July 2004 the number of active customers who have contributed to rake at Paradise Poker rose significantly by 88.5% to 212,000 (2004: 112,485). The number of games of poker played per day rose by 65.6% to 988,608 (2004: 596,818) generating an average daily rake of $283,824, an increase of 88.8% (2004: $150,277).

The cost of acquiring new active customers to Paradise Poker has remained broadly constant at $139 (2004: $129), yielding a payback period of less than two months. The increased scale of the business yielded a lower unit cost to £0.38 per £1 of margin (2004: £0.41).

In the 12 months to 31 July 2005, the margin from Sportingbet's other poker websites also grew strongly. Margin from the European region's own poker brands rose by £4.0m (321.0%) to £5.2m (2004: £1.2m), and the margin from the US region's own brands rose to £2.2m (2004: £Nil).

Paradise Poker ran a global marketing campaign promoting the World's First Free Million Dollar Poker Tournament. The billboard shown here is in Times Square, New York.

Paradise Poker: Revenue (US $)*
Increased by 88%

03/04	55.0 m
04/05	103.6 m

*12 months to 31 July

Dividends

The Directors recommend a maiden dividend of 1.0p per ordinary share for the year, amounting to £3.4m. Subject to approval at the Group AGM, this will be paid on 4 January 2006 to shareholders on the register as at 25 November 2005.

Trading Outlook

During the first ten weeks of the current financial year, trading across the Group has been strong.

The Board is particularly pleased with the performance of its Poker business, and the early benefits of its shared purse technology. Following an intensive and effective marketing campaign at the start of the new financial year, customer signups during the first ten weeks of the quarter were materially higher than last year, with 37,680 new active accounts opened in the ten week period (2004: 20,366) at an average cost of acquisition of $132 (2004: $129). Average daily rake during the ten week period has risen 71% over the same ten week period last year and 22% between July and September 2005.

In the US, customer signups at the start of the busy sports season have been strong (up 96.4% over last year) and have been acquired at an average customer acquisition cost of $235 (2004: $265). In Europe, customer signups at the start of the busy sports season have also been strong (up 67.1% over last year) and have been acquired at an average customer acquisition cost of £154 (2004: £94).

Financial Review

Trading Summary

Turnover for the year ended 31 July 2005 was £1,526.2 m (16 months to July 2004: £1,422.8m), earning a gross margin of £175.8m (2004: £108.8m) at 11.5% of turnover (2004: 7.6%). Sports betting turnover was £1,422.0m (2004: £1,379.9m), earning a gross margin of £71.6m (2004: £65.9m) at a gross margin percentage of 5.0% (2004: 4.8%). Casino and gaming, poker and fee income contributed a further £45.2m, £49.5m and £9.5m respectively to both turnover and gross margin (2004: £31.5m, £1.2m and £10.2m). Of the total poker income of £49.5m, £42.8m related to Paradise Poker.

The basis by which Sportingbet accounts for customer bonuses has altered in accordance with changes in accounting standards. This has impacted the reported figures for turnover, margin and marketing expenses, which have all been reduced by £12.5m (2004: £9.1m). There is no impact, however, on the overall profit of the Group. The results for the 16 months ended 31 July 2004 have been restated accordingly. The sports gross margin percentage as reported was 5.0% (2004: 4.8%). Without the accounting change the equivalent number would have been 5.5% (2004: 5.2%).

Costs (excluding goodwill amortisation and exceptional costs) in the year of £115.3m (2004: £87.1m) represented 65.6% (2004: 80.0%) of gross profit. Costs comprised marketing of £40.8m (2004: £25.7m), banking fees £28.3m (2004: £19.6m), information technology £12.5m (2004: £13.9m), employee costs £21.9m (2004: £18.7m), other administration costs £8.8m (2004: £6.9m) and depreciation £3.0m (2004: £2.3m).

With approximately 85% of the Group's revenues and costs denominated in foreign currency, exchange rates, particularly the dollar/sterling rate, can have a significant impact on the reported figures. The average dollar/sterling exchange rate for the year was $1.86, compared to $1.76 for the 16 months ended 31 July 2004. The net impact of the adverse exchange rate movements during the year has been to reduce the Group's operating profit from trading activities by £2.6m.

Operating profit (before goodwill and exceptional costs) for the year was £60.5m (2004: £21.7m), representing a margin of 34.4% (2004: 20.0%) of gross profit. Of the £60.5m, the Paradise Poker business contributed £28.4m (2004: Nil).

Profit before tax was £40.8m (2004: £5.4m), after including an exceptional profit of £1.0m (2004: loss of £5.1m), goodwill amortisation of £16.4m (2004: £9.6m), net finance costs of £4.6m (2004: £2.0m) and adding the share of operating profit in associate of £0.3m (2004: £0.4m). The exceptional profit relates to the successful completion of longstanding litigation in Australia.

Earnings per share

Basic earnings per share before exceptional costs and amortisation of goodwill was 18.6p (2004: 10.0p). Diluted earnings per share before exceptional items and amortisation of goodwill was 13.9p (2004: 6.8p).

Finance Costs

Finance costs comprised interest receivable on the Group's cash balances of £0.5m (2004: £0.1m), interest payable on the Group's £6.5m 2003 convertible loan note of £Nil (2004: £0.2m), interest payable on bank loans and overdrafts of £3.5m (2004: £1.1m), interest payable on finance leases of £Nil (2004: £0.1m), £0.7m relating to the amortisation of bank fees and a non cash charge of £0.9m (2004: £0.6m) arising from the discounting of future earn out liabilities back to current values in accordance with UK accounting standard FRS7.

Cashflow

During the year ended 31 July 2005, the Group generated cash from operating activities of £71.8m (2004: £24.3m).

As at 31 July 2005 the Group had £67.0m (2004: £20.3m) of cash and liquid resources on its balance sheet, of which £32.0m represented customer deposits. Gross debt amounted to £102.7m (2004: £33.8m). This comprised a bank loan of £63.6m (2004: £17.3m), deferred consideration of £12.6m (£0.9m under the Number One Betting Shop earn out arrangement, £2.3m owed in relation to the joint venture arrangement with World Gaming and £9.4m owing to the vendors of the business and certain assets of ISC Entertainment Inc.) and contingent cash consideration of £26.5m (£23.6m due to the vendors of Paradise Poker and £2.9m due to the vendors of the business of ISC). Since the year end, a further £10.7m of the bank loan has been repaid in accordance with the terms of the loan.

Reserves

During the 12 months, in order to distribute reserves in a financially efficient manner, the Company obtained Court approval to cancel its share premium and transfer the balance to distributable reserves. The share premium at the date of the court order, 8 June 2005, was £213.7m.

Dividends

The Directors recommend a dividend of 1p per ordinary share.

Treasury Management

The Group's treasury function provides a centralised service for the provision of finance and the management and control of liquidity, foreign exchange and interest rates. The function operates as a cost centre and manages the Group's treasury exposure to reduce risk in accordance with policies approved by the Board. It is not the policy of the Group to trade in or enter into speculative transactions. Authorities, procedures and reporting responsibilities are documented and regularly reviewed.

Due to the international nature of its core activities, the Group's reported profits, net assets and cash flows are all affected by foreign exchange rate movements, and in particular, the dollar/sterling exchange rate.

Operations are financed by a mixture of retained profits, bank borrowings and long term loans. In addition, various financial instruments, such as trade debtors and trade creditors, arise directly from the Group's operations.

Going Concern

The Directors have a reasonable expectation that the Company has adequate resources to continue operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Accounting Standards

The Group keeps up to date in respect of the work of the Accounting Standards Board and gives careful consideration to early application of the ASB's Financial Reporting Standards.

Financial Conduct

In addition to the financial probity obligations resulting from statutory, regulatory, and London Stock Exchange requirements, and the Customer Charter and Code of Conduct the Group applies the following Financial Code:

Financial Code

1. Sportingbet maintains at all times available cash resources to cover its customer liabilities.

2. Sportingbet only deals with reputable, secure financial institutions.

3. Sportingbet's processes and systems are designed to minimise the risk of fraud or money laundering.

4. Sportingbet employs and retains qualified finance professionals to monitor and maintain a stringent financial control environment.

5. Sportingbet's financial control environment facilitates informed decision making, allowing the Group to adapt quickly to market changes.

Board of Directors

Peter Dicks (62) ○ ● ◉
Non-Executive Chairman
Peter Dicks joined the Group in January 2000 as Sportingbet Plc's Non-Executive Chairman. Peter is the Chairman of Private Equity Investor and director of various UK and US companies including Polar Technology Trust, Graphite Enterprise Trust and Standard Microsystems (NASDAQ). Previously, Peter was a founder of Abingworth Plc, which specialised in private equity investments.

Nigel Payne (45)
Group Chief Executive
Nigel Payne, is the Group Chief Executive of Sportingbet Plc. Nigel joined Sportingbet in May 2000 as Group Finance Director and was appointed as Sportingbet Group Chief Executive in 2001. Nigel steered the Company through its admission to the AiM market of the London Stock Exchange, has completed three fundraisings and the acquisition of six businesses. Prior to joining Sportingbet in 2000, Nigel was the Group Finance Director of Polestar Magazines, Europe's largest magazine printer, and has held directorships at Scottish & Newcastle and Brann Direct Marketing. Nigel qualified as a Chartered Accountant in 1984.

Bob Holt (50) ○
Non-Executive Director
Bob Holt joined Sportingbet Plc as a Non-Executive Director in early 2004. He is Chairman of Mears Group PLC and Wyatt Group PLC. He is also a Director of Unicorn Aim VCT Plc and Supporta Plc.

Andrew McIver (42)
Group Finance Director
Andrew McIver is Group Finance Director of Sportingbet Plc. Andrew qualified as a Chartered Accountant with Arthur Andersen. Following two years in the Corporate Finance department at Dresdner Kleinwort Wasserstein, he held senior finance positions at Signet Group Plc, Ladbroke Group Plc and British Telecom's Internet division. He was then Director of Finance with House of Fraser Plc for four years before joining Sportingbet in December 2001.

Mark Blandford (47)
Founder & Executive Director
Mark Blandford is the Founder and Executive Director of Sportingbet Plc. Previously the owner of a traditional 'bricks and mortar' bookmaker's chain for over 15 years, Mark recognised the potential of the Internet in the mid 90's. He sold his chain to Tote Bookmakers in 1997. In October 1998 he launched Sportingbet and in January 2001 the Company floated on the Alternative Investment Market of the London Stock Exchange.

Sean O'Connor (56) ○ ● ◉ + *
Non-Executive Director
Sean O'Connor joined Sportingbet as a Non-Executive Director in 2000. He is the Chairman of Applied Energy Products, Babel Media and Springboard Urban and the founder of Trillium Venture Developments. He was previously Chairman of the Stoves Group PLC and of MediaKey Plc and is currently a director of several public and private companies including Phoenix Equity Partners, Graphite Enterprise Trust, Escape Studios and Crow TV.

Brian Harris (59) ● ◉ +
Non-Executive Director
Brian Harris joined Sportingbet Plc as a Non-Executive Director in January 2003. He founded Brian Harris & Co. in 1973, a London legal practice covering most areas of the law. Brian's areas of expertise include international joint ventures in Australia and the USA, and he is the legal advisor to one of the member states of the CIS. He is a member of the International Bar Association.

○ Member of the Audit Committee
● Member of the Remuneration Committee
◉ Member of the Nomination Committee
+ Member of the Social Responsibility Committee
* Senior Independent Director

Corporate Governance Statement

Compliance

The Company recognises the importance of the principles of good corporate governance and the Board is pleased to report its continued commitment to such high standards throughout the year. As an AIM listed company, Sportingbet is not required to follow the provisions of the 2003 FRC Combined Code (the "Code") as set out in the Financial Services Authority Listing Rules. Nonetheless, the Company voluntarily complies with the principles referred to in Section 1 of the Code.

The Board is accountable to the Company's shareholders for good governance and the statement set out below describes how the principles identified in the Code are applied by the Group.

The Board Constitution and Procedures

The Company is controlled through the Board of Directors which currently comprises three Executive and four Non-Executive Directors. All Non-Executive Directors (other than the Chairman pursuant to the Code) are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement. As the Chairman is primarily responsible for the running of the Board, he ensures that all Directors receive sufficient relevant information on financial, business and corporate issues prior to meetings. The Chief Executive's responsibilities focus on coordinating the Company's business and implementing Group strategy.

A formal schedule of matters is reserved for consideration by the Board, which meets approximately twelve times each year. The Board is responsible for overall Group strategy, acquisition and investment policy, approval of major capital expenditure projects and consideration of significant financing matters. It reviews the strategic direction of individual trading subsidiaries, their codes of conduct, their annual budgets, their progress towards achievement of these budgets and their capital expenditure programmes. In addition, the Directors have access to the advice and services of the Company Secretary and all Directors are able to take independent professional advice in the furtherance of their duties if necessary. The Directors receive training and advice on their responsibilities as necessary. All Directors, in accordance with the Code, submit themselves for re-election at least once every three years.

Board Committees

The Board delegates clearly defined powers to its Audit, Remuneration and Nomination Committees whilst the Company's Social Responsibility Committee (SRC), as reported on page 24, is responsible for reviewing the Company's policies on corporate social responsibility and making appropriate recommendations to the Board. The minutes of each Committee are circulated to and reviewed by the Board.

Audit Committee

The Audit Committee is chaired by Bob Holt (who has recent and relevant financial experience for this role), as indicated on page 20 and its other members are Peter Dicks and Sean O'Connor. Peter Dicks and Sean O'Connor were first appointed to the Committee on 30 January 2001. Bob Holt was appointed to the Committee on 4 October 2004 taking up the Chairmanship of the Committee from Peter Dicks on the same date. The Committee's Secretary is Daniel Talisman, the Company Secretary.

The Audit Committee meets at least twice a year (and met three times during the last financial year) and normally invites a representative of both the auditors and the Executive Directors, the latter usually being the Group Finance Director. The terms of reference of the Committee include monitoring the auditors' performance and reviewing accounting policies and financial reporting procedures. Terms of Reference for the Committee can be viewed on the Company's website and are available in writing on request.

Remuneration Committee

The Remuneration Committee is chaired by Peter Dicks and its other members are Brian Harris and Sean O'Connor. The Committee's Secretary is Daniel Talisman, the Company Secretary. The Remuneration Committee meets when necessary during the year (and met eight times during the last financial year) and considers the terms of employment and overall remuneration for the Executive Directors and key members of senior management. In particular, the Committee makes decisions regarding grants under share plans, salaries and incentive compensation. Terms of Reference for the Committee can be viewed on the Company's website and are available in writing on request. The remuneration of Non-Executive Directors is determined by the Board.

Nomination Committee

The Nomination Committee is chaired by Sean O'Connor and its other members are Peter Dicks and Brian Harris. The Committee's Secretary is Daniel Talisman, the Company Secretary. The Committee sits formally at least twice a year and met twice during the last financial year. Terms of Reference for the Committee can be viewed on the Company's website and are available in writing on request.

The Committee is responsible for monitoring and formally reviewing the performance, composition, balance and expertise of the Board as a whole and making an appraisal of the contribution of individual directors, including a review of their time commitment and attendance records. The Committee also considers succession planning for the Board and Group senior management. When necessary the Committee prepares a description of the role to be filled and engages external consultants to administer a detailed search and the generation of a shortlist. Any recommendations for appointments or replacements are brought before the Board.

Corporate Governance Statement
(continued)

Directors' attendance

Director	Possible meetings	No.	Meetings attended
Mark Blandford	Board	12	11
Peter Dicks	Board	12	12
	Audit	3	3
	Remuneration	8	8
	Nomination	2	2
Brian Harris	Board	12	11
	Remuneration	8	8
	Nomination	2	2
	SRC	6	6
Bob Holt	Board	12	12
	Audit	3	3
Andrew McIver	Board	12	12
Sean O'Connor	Board	12	12
	Audit	3	3
	Remuneration	8	8
	Nomination	2	2
	SRC	6	6
Nigel Payne	Board	12	11

Evaluation
The Board continued its ongoing evaluation processes of itself and its committees to assess their performance and identify areas in which their effectiveness, policies and processes might be enhanced. As part of this process the Board adopted the Institute of Chartered Secretaries and Administrators' Code of Good Boardroom Practice. The performance of individual directors has been considered by the Chairman and Chief Executive in discussion with other non-executive directors. The non-executive directors considered the performance of the Chairman, taking into account the views of the executive directors.

Communication with Investors
The Group places a great deal of importance on communication with its institutional and private shareholders and responds quickly to all queries received. There is regular dialogue with institutional shareholders as well as general presentations after each quarter end and the issue of preliminary results.

All shareholders have at least 20 working days' notice of the Annual General Meeting at which all Directors are introduced and available for questions. The executive directors endeavour to meet the Company's larger institutional shareholders at the time of the Company's quarterly results announcements and both the Chairman and Sean O'Connor, as the Company's Senior Independent Director, are available to such shareholders throughout the year. Reports of such meetings are shared with the Board.

Accountability and Audit
(a) Internal Control

The Group has fully complied with provision C.2.1 of the Code and the Turnbull Guidance for the 12 month period to 31 July 2005 and up to the date of approval of the Report and Accounts. The Board has ensured that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process, which is regularly reviewed by the Board, is carried out in conjunction with business planning and is documented in a risk register that was developed up to the date of approval of the annual Report and Accounts.

Whilst acknowledging the overall responsibility for the system of internal control and for reviewing its effectiveness, the Board is aware that the system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Group's internal control procedures continue to be reviewed, progressively developed and formalised to ensure that they sufficiently meet the requirements of the Group. Executive members of the Board are involved daily in all aspects of the business and they attend the regular management meetings at which performance against plan and business prospects are reviewed. Additionally, the Board seeks to continually strengthen the internal control system where this is consistent with improving the relationship between risk and reward.

Other key features and the processes for reviewing effectiveness of the internal control system are described below:

- Monthly management information, including financial accounts and key performance indicators, have been defined and are produced on a timely basis for review by the Board.
- A detailed formal budgeting process for all Group businesses culminates into an annual budget which is reviewed and approved by the Board. Results for the Group and for its main constituent businesses are reported monthly against the budget to the Board and revised forecasts for the financial year are considered each quarter.
- A comprehensive financial and accounting package sets out the principles of the minimum standards required by the Board for effective financial control. This package sets out the financial and accounting policies and procedures to be applied throughout the Group. Compliance with the policies and procedures set out in this package is reviewed regularly.
- Formal reports for the Board are prepared by the senior executives on the operation of those elements of the system for which they are responsible.
- The Company has clearly defined guidance for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and stringent due diligence requirements where businesses are being acquired.

(b) Audit Committee and Auditors

The Audit Committee meets periodically to review the adequacy of the Group's internal control systems, accounting policies and compliance with applicable accounting standards and for considering the appointment of external auditors and audit fees. The Group's auditors are invited to attend its meetings. The Audit Committee is authorised by the Board to investigate any activity within its terms of reference and obtain outside legal or other independent professional advice as necessary. The auditors and individual Board members are afforded the opportunity for separate meetings with the Audit Committee. The Audit Committee consists wholly of Non-Executive Directors.

The award of non-audit work to the auditors is subject to pre-clearance by the Audit Committee if the fee exceeds specified thresholds. As a matter of best practice and in accordance with the auditing standard 610, the auditors have held discussions with the Audit Committee on the subject of auditor independence and have confirmed their independence in writing.

Corporate Social Responsibility

Overview
Since its formation in 1998 Sportingbet has always sought to exhibit the responsible and ethical practices of a market leader. In its start up period the Company was conscious of consumer scepticism over the trustworthiness of internet bookmaking with many operators being not only unknown and unseen but often domiciled abroad. As the Company grew its business it increasingly confirmed its position as a straight-dealing and dependable leader in this new marketplace.

The Company's culture was formalised in 2000 in a series of written statements entitled Customer Charter and Code of Conduct. Since then these statements have been available for viewing on the Sportingbet website and continue to illustrate the Company's social responsibility to its customers, to its shareholders and to the governments of markets in which it operates.

Sportingbet's market position is in the mass appeal, recreational and low staking sector. The Company's objective is to provide a "protected entertainment environment" in which its customer care programmes give responsible adults the confidence of knowing that their money is safe whilst providing the Company with the confidence that all reasonable steps are being taken to protect the vulnerable.

Social Responsibility Committee
In January 2005 the Board decided to formally constitute a Social Responsibility Committee. It is chaired by a non-executive director, Brian Harris, and its other members are Sean O'Connor, the Senior Independent Director and the Company's General Counsel, Daniel Talisman, who also acts as the Committee's Secretary. The Committee intends to meet at least four times a year and in fact met six times during the last financial year. The Director of Audit, Internal Control & Compliance, the Group Fraud Manager and the Group Head of Human Resources attend its meetings and the Chief Executive Officer is appraised of the Committee's work at least twice in the course of the year. The Committee attends at least two Audit Committee meetings in each financial year.

The Committee is responsible for reviewing the Company's policies on corporate social responsibility and stimulating group-wide best practice on matters including age verification, fraud, money laundering, responsible gaming and privacy.

Appropriate recommendations are made to the Company's Board. Terms of Reference can be viewed on www.sportingbetplc.com and are available in writing on request.

Customers
As a service business the core of Sportingbet's policies on social responsibility lie in its approach to its customers. All operational directors and their brand managers are committed to winning and retaining the trust and loyalty of their users.

The guiding principle behind Sportingbet's policies can be summarised as "Know Your Customer." Procedures to achieve this mean far more than merely collecting documentary evidence of peoples' identities. It is about understanding their individual requirements, appreciating concerns and closely researching their patterns of behaviour.

As an online business with sophisticated software interfaces, building a picture of individual customers is far easier and far more effective than for bricks and mortar gaming companies. Knowing one's customers and creating profiles of their activities and preferences lead to targeted and appropriate marketing strategies and lie at the heart of the Company's Customer Relationship Management (CRM) policies.

The way different customers spend money and what they spend it on provides an overall understanding of their motivation. Happily for the huge majority of them, online gambling is great entertainment and Sportingbet's products, promotions and culture make the relationship an enjoyable experience.

It is the remaining tiny minority, however, who may be potential fraudsters, underage gamblers or problem players that result in the need for comprehensive systems and procedures to protect the Company and, often, the customer. Of course, nothing can ever be entirely secure against determined offenders, but marketing to and retaining this part of the Company's customer base neither makes financial sense nor is representative of the Company's culture.

Consequently, Sportingbet has focused on creating and installing software and staff training programmes that will identify vulnerable or inappropriate people. For example, the Company is working with a number of suppliers to ensure that the best available systems are utilised to prevent underage gamblers from gaming at the Group's websites. Similarly, programmes are in place to identify behaviour patterns such as rising bet sizes, accelerating frequency of betting, repeated losses or mismatches between stakes and social background that may indicate problem gambling. In such situations appropriate steps are taken which may include directing them to a service given at the relevant brand's website that allows customers to set their own betting limits.

With the advent of multiplayer environments such as poker, the Company is particularly vigilant about the risk of collusion or irregular fund movements between participants. Again, software systems have been designed to highlight unusual or concerning patterns of play. The Company's Group Fraud System can act quickly in these circumstances to protect the other players as well as its own interests.

Employees

The Board of Sportingbet is of the firm belief that the Company's continuing success is due to the quality and commitment of its global workforce. The Company's employee management priorities, including its remuneration strategies, are based on recruiting and retaining the best people in the industry and on encouraging working practices that improve productivity, reduce costs, develop talent and give job satisfaction.

Further, the Board recognises the need for communication with employees at every level. Copies of the annual Report and Accounts are available to all employees. With a growing global workforce, the Company is committed to developing ongoing communication with all of its employees. This is achieved through a variety of channels to ensure that everyone is informed of the Group's progress and recognises the key roles that they, as employees, play in Sportingbet's success. Further, the Group is committed to a policy of equal opportunity in matters relating to employment, training and career development of employees and is opposed to any form of less favourable treatment afforded on the grounds of disability, sex, marital status, nationality, race or religion.

As part of its approach to social responsibility towards its customers the Company has introduced a worldwide employee training programme to combat fraud and money laundering and the identification of underage or self-harming gambling.

Trade and Charitable Organisations

The Company recognises the obligation upon the gaming industry to demonstrate its commitment to self-regulation. Further, the Company is supportive of the role that the industry's trade associations can play in this regard. Sportingbet has been an active member of the Interactive Gaming, Gambling and Betting Association (iGGBA), the Association of Remote Gambling Operators (ARGO) and the European Betting Association and looks forward to continuing this role as a member of the Remote Gambling Association (RGA) which is the new trade association following the merger of iGGBA and ARGO.

The Company has signed up to the RGA's Codes on Social Responsibility and Age Verification, the provisions of which the Committee endorses.

Further, Sportingbet invests considerable time and resources in meeting and influencing the officers and politicians of governments. These governments include those that have not yet regulated their online gambling industries. The Company's management remains committed to playing its part in promoting the value of legislation that will lead to a regulated approach to the industry, not least as a mechanism for protecting the vulnerable elements of their societies from unscrupulous operators.

The Company also supports organisations which encourage greater education of the social impact of gambling and help to users who may be affected by gambling dependency. In the UK it works closely with Gamcare and supports its activities both financially and with advice.

Directors' Report

The Directors submit their annual report and audited financial statements of the Group for the 12 months ended 31 July 2005.

Principal Activities
The principal activities of the Group are the operation of interactive licensed betting and gaming operations over the internet and telephone.

Results and Dividends
The results of the Group for the 12 month period are set out on page 32 and show a profit after taxation for the year of £39.9m (2004: £5.4m). The Directors recommend a dividend of 1p per ordinary share.

Review of the Business and Future Developments
The Group operates worldwide internet and telephone betting facilities in respect of a wide variety of sporting events and casino and poker gaming.

A more detailed review of the business and future developments is given in the Chairman's statement on page 5 and operational review on pages 11 to 17.

Directors and their interests
The following Directors have held office during the year and subsequently:

P Dicks	Non Executive Chairman
N Payne	Executive
A McIver	Executive
M Blandford	Executive
S O'Connor	Non Executive
B Harris	Non Executive
R Holt	Non Executive

Peter Dicks and Andrew McIver will retire by rotation at this Annual General Meeting and, being eligible, will each seek re-election. The interests of the Directors and their wives in the shares of the Company and options for such shares were as shown on pages 28 to 29 both reflecting the year end figures and any subsequent changes. No Director has any interest in any other Group company. Details of the Directors' remuneration and service contracts appear on pages 28 to 29.

Related Party Transactions
Details of transactions with related parties undertaken by the Group during the year are disclosed in Note 26 to the Financial Statements.

Corporate Governance
The Board's statement on Corporate Governance appears on pages 21 to 23.

Charitable Donations
During the year, the Group donated £35,100 to charities. This figure includes £5,000 to the Responsibility in Gambling Trust (a funder of GamCare), £3,000 to Childline and £2,700 to the Lombardi Cancer Centre, and the sums of £14,500, £7,900 and £2,000 to local charities in Australia, the UK and Costa Rica respectively. It is Group Policy not to make political donations and no such donations were made during the year (2004: £Nil).

Substantial Shareholdings
As at 21 October 2005 the following interests in 3 percent or more of the Company's existing ordinary share capital had been reported:

Shareholder	Number of Ordinary Shares of 0.1 Pence each	% of issued Ordinary Shares of 0.1 Pence each
Bonaire Investment Holdings Ltd	56,677,388	16.80
Fidelity (UK)	13,690,254	4.06
M & P Blandford	12,480,173	3.70
Blue Ridge Offshore Master LP	11,120,000	3.30
Deutsche Bank	11,081,441	3.28
Fidelity European Smaller Cos	11,001,742	3.26

Payment of Suppliers
It is the policy of the Group that each company within the Group should agree appropriate terms and conditions for its transactions with suppliers by means ranging from standard written terms to individually negotiated contracts. Payments are normally made in accordance with these terms and conditions. At 31 July 2005 the Company had a trade creditor balance of £Nil (2004: the Company's trade creditors represented 35 days of purchases). Group trade creditors represented 22 days of purchases (2004: 32 days).

Post Balance Sheet Events
Subsequent to the year end, the Australian litigation involving Number One Betting Shop Limited and Sportingbet Plc, relating to funds deposited that had been fraudulently obtained by a customer, was settled. Under this settlement all actions have ceased and the Group recovered monies previously paid over and a contribution to legal costs. These amounts are disclosed in the profit and loss account as an exceptional profit of £1.0m.

Annual General Meeting
The Annual General Meeting will be held on 16 December 2005. The Notice of the Meeting is set out on page 57. The Notice contains special business, including the renewal of authority to the Board to allot shares and the dis-application of statutory pre-emption rights on equity issues for cash – both in accordance with ABI and NAPF Guidelines. Shareholders should complete the Proxy form accompanying this Report in accordance with the notes contained in the Notice of Annual General Meeting.

Directors' responsibilities in relation to the accounts
Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Disclosure of information to the auditors
So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditors are unaware. Each of the Directors has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By Order of the Board

D. J. Talisman

D Talisman LLB ACIS
Company Secretary
21 October 2005

Remuneration Report

The Directors' emoluments, benefits and shareholdings during the year ended 31 July 2005 were as follows:

1. Directors Emoluments

	Notes	Salary/ Fees £000	Bonuses £000	Benefits £000	Total emoluments 2005 £000	Pension 2005 £000	Total emoluments 2004 £000	Pension 2004 £000
Executive Directors								
Nigel Payne	1 & 2	**320**	**430**	**20**	**770**	**45**	642	35
Andrew McIver	2	**189**	**399**	**3**	**591**	**26**	395	20
Mark Blandford	2	**126**	**–**	**2**	**128**	**12**	224	21
Non-Executive Directors								
Peter Dicks	3, 4 & 5	**75**	**–**	**–**	**75**	**–**	76	–
Sean O'Connor	3, 4, 5, 6 & 8	**55**	**–**	**–**	**55**	**–**	78	–
Alfred Ballester	7	**–**	**–**	**–**	**–**	**–**	8	–
John Blower	7	**–**	**–**	**–**	**–**	**–**	20	–
Brian Harris	4, 5 & 6	**50**	**–**	**–**	**50**	**–**	53	–
Bob Holt	3	**48**	**–**	**–**	**48**	**–**	15	–
		863	**829**	**25**	**1,717**	**83**	1,511	76

1. Aggregate emoluments for Nigel Payne, as highest paid Director, amounted to £769,829 excluding pension contributions (2004: £641,785).
2. The average total emoluments of the executive directors was £496,122 (2004: £420,372). The average total emoluments of non-board employees was £58,750 (2004: £41,795). The ratio between the two averages was 8.4:1 (2004: 10.1:1).
3. Member of the Audit Committee. The chairman sits on this committee because the board considers his experience and qualifications to be of such value to the committee as to make any deemed lack of independence (by virtue of being the chairman of the Company and a shareholder of the Company and option holder regarding shares in the capital of the Company) of negligible significance in the context of the make-up and the balance of skills of the Company's board.
4. Member of the Remuneration Committee.
5. Member of the Nomination Committee.
6. Member of the Social Responsibility Committee.
7. Alfred Ballester resigned as a director on 23 October 2003. John Blower resigned as a director on 19 March 2004.
8. Senior Independent Director.

2. Interests of Directors in share options and shares in the Company

Options	Notes	No. of options at 31 July 2004	No. of options at 31 July 2005	Date of grant	Exercise price (p)	Earliest exercise date	Expiry of exercise period
Executive Directors							
Nigel Payne	1	1,500,000	**1,500,000**	29/01/04	49	29/01/07	29/01/14
Andrew McIver	1	500,000	**500,000**	29/01/04	49	29/01/07	29/01/14
Mark Blandford		–	**–**	–	–	–	–
Non-Executive Directors							
Peter Dicks	2	250,000	**250,000**	13/12/99	65	13/12/01	12/12/06
Sean O'Connor		–	**–**	–	–	–	–
Brian Harris		–	**–**	–	–	–	–
Bob Holt		–	**–**	–	–	–	–

1. Share options as at 31 July 2005 have been granted under the Sportingbet Plc Unapproved Executive Share Option Scheme 2004 and are subject to a guaranteed sale price of £2.15 up to and including 31 December 2007 pursuant to a trust deed dated 29 June 2005.
2. Peter Dicks's share options were granted by contract outside of Sportingbet Plc's Unapproved Share Option Scheme.

No options were exercised during the period. The market price of shares at 31 July 2005 was 370.5p and the range during the financial period was 90.75p to 371.25p.

Shares	Notes	31 July 2004	31 July 2005
Executive Directors			
Nigel Payne		176,398	176,398
Andrew McIver		27,500	27,500
Mark Blandford	1	14,930,173	12,480,173
Non-Executive Directors			
Peter Dicks		155,000	155,000
Sean O'Connor		78,334	78,334
Brian Harris		13,079	13,079
Bob Holt		–	35,000

1. Mark Blandford's shares in the Company are held jointly with his wife.
2. Brain Harris purchased a further 10,000 shares on 19 October 2005.

(a) Remuneration Policy
The Company's policy is designed to attract, retain and motivate individuals to ensure the success of the Company. Remuneration packages are designed to reward the Executive Directors fairly for their contributions whilst remaining within the range of benefits offered by similar companies in the sector. The Remuneration Committee seeks to structure total benefits packages, including base salaries, which align the interests of shareholders and senior executives with particular importance weighted upon the performance-related elements of such total remuneration. Directors' remuneration will be the subject of regular review in accordance with this policy in the next financial year.

(b) Terms of Reference
The terms of reference of the Remuneration Committee include:

- To determine the remuneration and benefits, including incentive arrangements, of the Executive Directors, the directors of divisional companies and other employees of similar status.
- To set targets for performance-related pay elements of remuneration packages.
- To review recommendations from the Board on the overall remuneration and benefits policy of the Group, with the power and authority to amend it if appropriate.
- To have regard to the provisions of the Combined Code and associated guidance in its decision-making.

(c) Service Contracts
The Company's policy on the duration of directors' contracts is that for both Executive and Non-Executive Directors notice periods will be no more than one year served by the Company or the Director.

(d) Bonuses
The Company operates a bonus incentive scheme which applies, at differing rates, to the employment terms of the Executive Directors and members of senior management. Part of any payment under this scheme is linked to the annual performance of the business for which they are responsible; the remainder of such payment is made on a discretionary basis. A discretionary bonus was awarded as a result of the early paydown of the Company's debt due to DBS Advisors Limited.

The Remuneration Committee reviews the packages and varies individual elements when appropriate from year to year. The Remuneration Committee has policies and procedures in place to monitor the size of potential rewards.

(e) Share Option Schemes
The Company operates four share option schemes, namely the Unapproved Share Option Scheme (the "Unapproved Scheme"), the Sportingbet Plc Company Share Option Plan (the "IR Approved Scheme"), the Sportingbet Plc Executive Share Option Scheme (the "Executive Scheme") and the Long Term Retention Plan 2005 (the "2005 Share Plan"). Prior to the Company's admission to AIM on 30 January 2001, share options were granted under the Unapproved Scheme only and since that date, share options have been granted under the IR Approved Scheme and the Executive Scheme. Under the Executive Scheme, certain senior management's share options are subject to a guaranteed sale price of £2.15 from the date of vesting up to and including 31 December 2007 pursuant to a trust deed dated 29 June 2005. (£5.1m is held in a designated account in this respect.) The 2005 Share Plan was introduced on 2 August 2005. The Company's policy to grant share options under the IR Approved Scheme, the Executive Scheme and the 2005 Share Plan is at the Remuneration Committee's discretion as and when considered appropriate.

The 2005 Share Plan entails a loyalty element and a performance element. The loyalty element represents 35 per cent. of the executive directors' total potential awards pursuant to the 2005 Share Plan. Participants who remain employed by the Company until 31 July 2007 may exercise loyalty awards which have vested up to that date. Participants who remain employed by the Company until 31 July 2007 may exercise performance awards which may have vested, subject to the satisfaction of certain performance conditions, up to that date.

Performance conditions are based on the extent to which growth in the Company's fully diluted earnings per share ("EPS Growth") exceeds growth in the retail prices index ("RPI Growth") over a financial year of the Company. For the performance award to be exercisable in full, EPS Growth must exceed RPI Growth by five per cent. per financial year compound. The proportion of the performance award exercisable increases on a straight line sliding scale between 0 and 100 per cent. if EPS Growth exceeds RPI Growth by any margin up to five per cent. over a financial year. The Remuneration Committee continues to believe that, in relation to the 2005 Share Plan, EPS Growth in excess of RPI Growth is the most appropriate measure for determining the increase in value delivered to shareholders by the Company's executive directors and other senior executives. The Remuneration Committee reviews the appropriateness of the performance measure and the specific target set when considering each new grant of performance awards.

(f) Long Term Incentive Plan
In 2003, the Remuneration Committee engaged external consultants to review remuneration and benefits packages. As a result, a cash-based long term incentive plan ("LTIP") was established and offered to a small number of key employees which was varied in July 2005. The LTIP pays a cash sum based on the relevant employee's gross salary and matures in March 2006.

Regulatory Developments

The Board believes that proper regulation of the internet gaming industry is essential: regulation enhances consumer protection and mitigates social responsibility concerns. Sportingbet invests a great deal of time and resource each year attempting to improve the global regulatory environment. As in previous years however, the political will in many parts of the world to navigate through the respective needs of diverse interest groups, such as state or pre-existing operators, lottery monopolies, government treasuries and various protection groups, can result in a time consuming process which fails to reach any form of agreement. The current year, has, like other years before it, been a year in which the regulatory process has largely remained unchanged. Operationally this has presented few practical obstacles to trading whilst creating an effective barrier against some parties (particularly from US based operators) from entering the industry, though from a consumer protection standpoint the position is far from ideal.

In the UK, the Gambling Act 2005 was passed through Parliament in April. The Act introduced much needed statutory controls in relation to the online gambling industry and will enable companies (when fully implemented) to obtain a remote gambling licence. The Act remains unclear in a number of areas, for example, which activities are intended to be included and licensed within the UK under the Act. The Board believes that this lack of clarity, and the consequential inability for parts of the industry to conduct proper business planning, combined with the likely high tax rates in the UK, is unlikely to result in many operators relocating onshore.

Elsewhere in Europe, whilst the pace of expansion of the industry remains high, some governments persist with their monopolistic stance - at times seemingly in conflict with EU policy. The political will at EU level to resolve such treasury-driven inconsistencies is uncertain, though the Board welcomes the recent announcement by Commissioner McCreevy that he is to investigate and potentially challenge the monopoly positions of Sweden and other Member States. The potential within Europe for internal market distortion remains high. From an operator viewpoint, however, the practical impact of such distortions is minimal.

In the US there has been a good deal of activity this year. The Board has worked hard to educate interested parties as to the merits of regulation. There is now a better understanding of the issues amongst politicians in Washington and elsewhere in the US. A number of other events have supplemented this effort. External bodies such as the World Trade Organisation (WTO) have openly expressed concern over the present US Congress position of selectively regulating elements of internet gambling to the detriment of foreign operators. In addition to WTO concerns, the year has seen an expansion of legalised US based internet gambling. Many States now offer internet gambling on horse racing for example. Nevada has introduced wireless gaming, and citizens of Nevada who are customers of Station Casino, are now able to bet on sports from their home using a specific ISP. There has also been an increased interest at State level with regard to internet lotteries, notably in Georgia and Illinois.

Overall, however, in 2005, like all of the years before it, there has not been any change in the clarity of the US position and there is little sign of any consensus in the short term. The US has appealed the initial decision of the WTO in favour of Antigua and Barbuda, and considerable confusion exists as to how the US intends to comply with the findings of that Ruling. The WTO has given the US until early 2006 to propose how it will do so. Senator Kyl has continued to promote an overtly protectionist bill which sought to prohibit the funding of online gaming transactions, though specifically exempting Internet betting on domestic horseracing and intrastate gambling. An attempt to appropriate space on other proposed legislation to obtain passage for this bill was recently defeated.

In Australia, there has been little in the way of material regulatory developments since the completion in the middle of 2004 of the Government's review of the Interactive Gambling Act 2001.

Report of the Independent Auditors
to the shareholders of Sportingbet Plc

We have audited the financial statements of Sportingbet Plc for the year ended 31 July 2005 on pages 32 to 53, which have been prepared under the accounting policies set out on pages 35 to 36.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards. Where a company is fully listed, there are additional responsibilities for auditors contained in the Listing Rules of the Financial Services Authority. Sportingbet Plc has voluntarily complied with the requirements of rule 9.8.6 of the Listing Rules in preparing its annual report. As auditors, we have agreed that our responsibilities in relation to the annual report will be those set out below.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or rule 9.8.6 of the Listing Rules regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Group's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement, Financial Review, Operational Review, Corporate Governance Statement, Corporate Social Responsibility Statement, Remuneration Report and Regulatory Developments. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely on this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company at 31 July 2005 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP
Registered Auditors and
Chartered Accountants
London
21 October 2005

Consolidated Profit and Loss Account
for the year ended 31 July 2005

	Notes	Before goodwill amortisation £m	Goodwill amortisation £m	Total year ended 31 July 2005 £m	16 month period ended 31 July 2004 restated £m
Turnover					
Continuing operations		**1,483.4**	**–**	**1,483.4**	1,420.4
Acquisitions		**42.8**	**–**	**42.8**	2.4
Turnover	1,3	**1,526.2**	**–**	**1,526.2**	1,422.8
Cost of sales		**(1,350.4)**	**–**	**(1,350.4)**	(1,314.0)
Gross profit		**175.8**	**–**	**175.8**	108.8
Net operating expenses (including exceptional items)		**(114.3)**	**(16.4)**	**(130.7)**	(101.8)
Operating profit before exceptional items		**60.5**	**(16.4)**	**44.1**	12.1
Exceptional items	4	**1.0**	**–**	**1.0**	(5.1)
Operating profit					
Continuing operations		**33.1**	**(7.4)**	**25.7**	6.9
Acquisitions		**28.4**	**(9.0)**	**19.4**	0.1
Operating profit	3	**61.5**	**(16.4)**	**45.1**	7.0
EBITDA		**64.5**	**–**	**64.5**	18.9
Depreciation	13	**(3.0)**	**–**	**(3.0)**	(2.3)
Amortisation	12, 14	**–**	**(16.4)**	**(16.4)**	(9.6)
Share of operating profit in associated undertaking	14	**0.4**	**(0.1)**	**0.3**	0.4
Profit on ordinary activities before interest		**61.9**	**(16.5)**	**45.4**	7.4
Net interest payable	7	**(3.7)**	**–**	**(3.7)**	(1.4)
Other finance charges	8	**(0.9)**	**–**	**(0.9)**	(0.6)
Interest payable and similar charges		**(4.6)**	**–**	**(4.6)**	(2.0)
Profit on ordinary activities before taxation	5	**57.3**	**(16.5)**	**40.8**	5.4
Taxation	9	**(0.9)**	**–**	**(0.9)**	–
Profit on ordinary activities after taxation		**56.4**	**(16.5)**	**39.9**	5.4
Minority Interest		**–**	**–**	**–**	(0.1)
Dividend	10	**(3.4)**	**–**	**(3.4)**	–
Profit for financial period		**53.0**	**(16.5)**	**36.5**	5.3
Earnings per ordinary share					
Basic	11			**13.4p**	2.6p
Diluted	11			**10.1p**	1.8p
Adjusted earnings per ordinary share					
Basic	11			**18.6p**	10.0p
Diluted	11			**13.9p**	6.8p

The notes on pages 35 to 53 form part of these financial statements. All the above amounts relate to continuing activities.

Balance Sheets
as at 31 July 2005

		Group		Company	
	Notes	**As at 31 July 2005 £m**	As at 31 July 2004 £m	**As at 31 July 2005 £m**	As at 31 July 2004 restated £m
Fixed assets					
Intangible assets – goodwill	12	**386.5**	124.2	**–**	–
Tangible assets	13	**8.8**	5.2	**–**	0.1
Investments	14	**9.0**	2.7	**145.1**	147.3
		404.3	132.1	**145.1**	147.4
Current assets					
Debtors – amounts falling due within one year	15	**22.2**	8.3	**187.8**	7.4
Cash at bank and in hand	16	**67.0**	20.3	**5.1**	0.8
		89.2	28.6	**192.9**	8.2
Creditors – amounts falling due within one year	17	**(108.6)**	(57.9)	**(46.9)**	(63.1)
Net current (liabilities)/assets		**(19.4)**	(29.3)	**146.0**	(54.9)
Total assets less current liabilities		**384.9**	102.8	**291.1**	92.5
Creditors – amounts falling due after more than one year	18	**(20.8)**	(0.1)	**(20.8)**	–
Provisions for liabilities and charges	19	**(29.3)**	(1.7)	**(1.3)**	(1.4)
		(50.1)	(1.8)	**(22.1)**	(1.4)
Net assets		**334.8**	101.0	**269.0**	91.1
Capital and reserves					
Called up share capital	21	**0.3**	0.2	**0.3**	0.2
Shares to be issued	22	**73.1**	26.7	**73.1**	26.7
Share premium	22	**0.6**	52.5	**0.6**	73.5
Other reserves	22	**0.3**	21.3	**0.3**	0.3
Profit and loss account	22	**260.5**	0.3	**194.7**	(9.6)
Equity shareholders' funds		**334.8**	101.0	**269.0**	91.1

The notes on pages 35 to 53 form part of these financial statements. These financial statements were approved by the Board on 21 October 2005.

A McIver
Director

Consolidated Cash Flow Statement
for the year ended 31 July 2005

	Notes	Year ended 31 July 2005 £m	16 month period ended 31 July 2004 £m
EBITDA		**64.5**	18.9
Net working capital movement		**7.3**	5.4
Net cash inflow from operating activities	25a	**71.8**	24.3
Returns on investment and servicing of finance	25b	**(4.7)**	(1.4)
Taxation		**(0.1)**	–
Capital expenditure	25b	**(6.4)**	(3.5)
Acquisitions	25b	**(130.0)**	(27.3)
Cash outflow before financing		**(69.4)**	(7.9)
Management of liquid resources	25b	**(17.4)**	1.3
Financing	25b	**118.6**	(2.2)
Increase/(decrease) in cash in the period		**31.8**	(8.8)

Reconciliation of net cashflow to movement in net funds			
Increase/(decrease) in cash in the period		**31.8**	(8.8)
Cash outflow/(inflow) from increase/(decrease) in liquid resources	25b	**17.4**	(1.3)
Cash (inflow)/outflow from (increase)/decrease in debt	25c	**(56.3)**	2.3
Movement in net funds resulting from cash flows in period		**(7.1)**	(7.8)
Acquisitions	25c	**7.8**	–
Other movements	25c	**1.3**	5.9
Movement in net funds in period		**2.0**	(1.9)
Net funds at start of period		**2.6**	4.5
Net funds at end of period	25c	**4.6**	2.6

Consolidated Statement of Total Recognised Gains and Losses
for the year ended 31 July 2005

	2005 £m	2004 £m
Profit for the financial period	**36.5**	5.3
Exchange translation differences on consolidation	**10.0**	(1.3)
Total recognised gains and losses for the period	**46.5**	4.0

The notes on pages 35 to 53 form part of these financial statements.

Accounting Policies

Basis of preparation
The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Restatement of comparatives
The principal accounting policies are summarised below. They have all been applied consistently throughout the financial period and the preceding year with the exception of the policy for accounting for merger relief in the Company accounts and accounting for certain customer bonuses.

The Company previously accounted for certain acquisitions after merger relief by recording those investments at the nominal value of shares issued and shares to be issued together with the fair value of any other consideration. This policy was changed during the year and the investments have been recorded at the fair value of total consideration.

The Group previously accounted for customer bonuses as a marketing expense. Certain bonuses have now been netted against turnover.

The impact of these changes has been given in note 2.

Basis of consolidation
The consolidated financial statements incorporate the results of Sportingbet Plc and all of its subsidiary undertakings as at 31 July 2005 using the acquisition method of accounting as required. Results of subsidiary undertakings are included from the effective date of acquisition.

Goodwill
Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. It is capitalised and amortised through the profit and loss account over the Directors' estimate of its useful economic life which ranges from 10 to 20 years. Impairment tests on the carrying value of goodwill are undertaken at the end of the first full financial year following acquisition and in other periods if events or changes in circumstance indicate that the carrying value may not be recoverable.

Associates
An entity is treated as an associated undertaking where the Group has a participating interest and exercises significant influence over its operating and financial policy decisions.

In the Group accounts, interests in associated undertakings are accounted for using the equity method of accounting. The consolidated profit and loss account includes the Group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings based on audited financial statements. In the consolidated balance sheet, the interests in associated undertakings are shown as the Group's share of the identifiable net assets, including any unamortised premium paid on acquisition.

The premium on acquisition is dealt with under the goodwill policy.

Joint Ventures
An entity is treated as a joint venture where the Group holds a long term interest and shares control under a contractual agreement.

In the Group accounts, interests in joint ventures are accounted for using the gross equity method of accounting. The consolidated profit and loss account indicates the Group's share of the joint venture's turnover and includes the Group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings based on audited financial statements. In the consolidated balance sheet, the Group's share of the identifiable gross assets (including any unamortised premium paid on acquisition) and its share of the gross liabilities attributable to its joint ventures are shown separately.

The premium on goodwill is dealt with under the goodwill policy.

Turnover
Turnover represents the amounts staked in respect of bets placed on sporting events and net win in respect of bets placed on casino games and rake for poker games that have concluded in the period, plus net commissions invoiced in respect of licensing type agreements. Revenue is measured at the fair value of consideration received or receivable and is net of certain promotional bonuses.

Accounting Policies
(continued)

Tangible fixed assets
Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows.

Fixtures, fittings and equipment	25% on cost
Motor vehicles	25% on cost
Computer equipment	33% on cost

Computer software
Where, in the opinion of the directors, the Group's expenditure in relation to development of internet activities results in future benefits, these costs are capitalised and amortised over the shorter of three years or the average period of future benefit.

Valuation of investments
Investments held as fixed assets are stated at cost less any provision for impairment in value. Investments held as current assets are stated at the lower of cost and market value.

Finance costs
Finance costs associated with the issue of debt are deducted from the proceeds of the issue and charged to profit over the term of the debt.

Financial instruments
In relation to the disclosures made in note 20, short term debtors and creditors are not treated as financial assets or financial liabilities except for currency disclosures.

The Group does not hold or issue derivative financial instruments for trading purposes.

Foreign currency
Foreign currency transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates or at contracted rates. Any differences are taken to the profit and loss account.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets translated into sterling at the rates of exchange ruling on the balance sheet date. Exchange differences which arise from translation of the opening net assets and results of foreign subsidiary undertakings and from translating the profit and loss account at an average rate are taken to reserves.

Deferred taxation
Deferred tax is recognised in respect of all material 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 they have either been agreed with the relevant Revenue authority and/or the Group anticipates making sufficient suitable taxable profits in the near future.

Liquid resources
For the purposes of the cash flow statement liquid resources are defined as current asset investments and short term deposits.

Pension costs
For defined contribution arrangements the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Share based employee remuneration
When shares and share options are granted to employees a charge is made to the Group profit and loss account and a reserve created in capital and reserves to record the intrinsic value of the awards in accordance with UITF Abstract 17 'Employee Share Schemes'.

Leases
Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Notes to the Financial Statements

1. Turnover and profit on ordinary activities before taxation

The Group's turnover and profit before taxation were all derived from its principal activity of offering, through licences domiciled in appropriate global regions, interactive betting over the internet and telephone. The Company has taken advantage of the exemption in the Companies Act 1985, Section 230, not to present its own profit and loss account. Of the Group's profit after tax for the period, a loss of £6.0m (2004: profit of £0.2m) has been dealt with in the Company's financial statements.

2. Comparative figures

The Company has changed its accounting policy in respect of merger relief previously taken. The effect of this has been to increase investments in subsidiary undertakings and net assets of the Company by £45.7m as at 31 July 2004. Additionally, shares to be issued and share premium account have increased by £21.0m and £24.7m respectively. There is no effect on retained proft.

Turnover and marketing expenditure in the 16 months ended 31 July 2004 have been restated to reflect the change in Group accounting policy for certain customer bonuses. The effect of this has been to reduce turnover, gross profit and marketing costs (included in administration expenses) by £9.1m. There is no effect on operating profit.

3. Segmental information

(a) By geography

	Continuing operations £m	Acquisitions £m	Year ended 31 July 2005 £m	16 month period ended 31 July 2004 £m
Turnover				
Americas	**823.2**	**36.4**	**859.6**	804.7
Europe	**289.0**	**6.4**	**295.4**	216.2
Australia	**371.2**	**–**	**371.2**	401.9
Total	**1,483.4**	**42.8**	**1,526.2**	1,422.8
Operating profit				
Americas	**32.0**	**17.5**	**49.5**	12.1
Europe	**2.4**	**1.9**	**4.3**	0.4
Australia	**2.8**	**–**	**2.8**	(4.1)
Unallocated central costs	**(11.5)**	**–**	**(11.5)**	(1.4)
Total	**25.7**	**19.4**	**45.1**	7.0

Operating profit for acquisitions is after cost of sales of £Nil and operating expenses of £23.4m which includes goodwill amortisation of £9.0m and other administrative expenses of £14.4m.

	Year ended 31 July 2005 £m	16 month period ended 31 July 2004 £m
Net assets		
Americas	**113.7**	55.3
Europe	**216.2**	43.3
Australia	**4.9**	2.4
Total	**334.8**	101.0

(b) By activity

	Continuing operations £m	Acquisitions £m	Year ended 31 July 2005 £m	16 month period ended 31 July 2004 £m
Turnover				
Sports betting	**1,422.0**	**–**	**1,422.0**	1,379.9
Casino and gaming	**45.2**	**–**	**45.2**	31.5
Poker rake	**6.7**	**42.8**	**49.5**	1.2
Fee income	**9.5**	**–**	**9.5**	10.2
Total	**1,483.4**	**42.8**	**1,526.2**	1,422.8

No analysis of operating profit and net assets has been given by activity as all expenses, assets and liabilities relate jointly to these segments. Any allocation of these items would be arbitrary.

Notes to the Financial Statements
(continued)

4. Exceptional items

	Year ended 31 July 2005 £m	16 month period ended 31 July 2004 £m
Recovery of bad debt	**1.0**	–
Legal and professional fees	**–**	(1.8)
Provision against amounts due from payments processors	**–**	(3.3)
	1.0	(5.1)

Exceptional items in 2005 relate to the successful completion of longstanding litigation in Australia. Legal and professional fees in 2004 relate principally to the fees associated with the re-negotiation of the Sportsbook earnout and offer discussions. The provision against amounts due from payment processors in 2004 relates to payment processors whose agreements were terminated.

5. Profit on ordinary activities before taxation

	2005 £m	2004 £m
Profit on ordinary activities before taxation is stated after charging:		
Amortisation of goodwill	**16.5**	9.6
Depreciation of tangible fixed assets	**3.0**	2.3
Operating lease rentals – land and buildings	**0.8**	0.6
Auditors' remuneration – audit services	**0.3**	0.2
– non-audit services	**0.4**	0.3

Auditors' remuneration for audit services includes £30,000 (2004: £25,000) in respect of the Company.

Auditors' remuneration for non-audit services includes £0.2m (2004: Nil) for work in connection with aborted acquisitions and £0.2m (2004: £0.3m) for work of a compliance nature.

Operating expenses are all administrative in nature.

6. Employees and staff costs

	2005 No.	2004 No.
The average number of persons employed by the Group during the period was as follows:		
Europe	**208**	170
Americas	**387**	302
Australia	**48**	42
	643	514

	2005 £m	2004 £m
Employee costs including Directors were as follows:		
Wages and salaries	**19.6**	16.6
Pensions and social security costs	**2.3**	2.1
	21.9	18.7

6. Employees and staff costs (continued)

	Year ended 31 July 2005 £m	16 month period ended 31 July 2004 £m
Directors' remuneration		
Salary and fees	**0.9**	1.1
Bonus	**0.8**	0.4
Pension	**0.1**	0.1
	1.8	1.6

There were 3 (2004: 3) Directors in the Company's defined contribution pension scheme.
Further disclosures on the remuneration of each individual director are given in the Remuneration Report.

7. Net interest payable

	2005 £m	2004 £m
Interest on convertible loan stock	**–**	(0.2)
Bank loans and overdrafts	**(3.4)**	(1.1)
Amortisation of loan arrangement fees	**(0.7)**	–
Finance leases	**–**	(0.1)
Other interest payable	**(0.1)**	(0.1)
	(4.2)	(1.5)
Interest receivable	**0.5**	0.1
	(3.7)	(1.4)

8. Other finance charges

	2005 £m	2004 £m
Finance charge on discounting of deferred consideration	**(0.9)**	(0.6)

The finance charge on the discounting of deferred consideration arises from the requirement under FRS7 to discount consideration, deferred in respect of acquisitions, back to current values.

9. Taxation

The tax charge for the period is lower than the standard UK rate of corporation tax as explained below:

	2005 £m	2004 £m
Profit on ordinary activities before taxation	**40.8**	5.4
Profit assessed at UK corporation tax rate 30% (2004: 30%)	**12.2**	1.6
Expenses not allowed for tax purposes (primarily goodwill amortisation)	**6.1**	3.7
Effect of lower tax rates on overseas earnings net of losses	**(17.4)**	(5.3)
Current tax charge for the period – overseas taxation	**(0.9)**	–

There are significant taxation losses available to the Group. Utilisation of these losses is contingent upon agreement with the relevant Revenue authorities.

Notes to the Financial Statements
(continued)

10. Dividends

	Year ended 31 July 2005 £m	16 month period ended 31 July 2004 £m
Ordinary shares		
Dividend proposed of 1.0p (2004: Nil) per share	**(3.4)**	–

Subject to approval at the Annual General Meeting, this will be paid on 4 January 2006 to shareholders on the register as at 25 November 2005.

11. Earnings per ordinary share

The calculation of basic earnings per share is based on the profit on ordinary activities after taxation attributable to shareholders of Sportingbet Plc of £39.9m (2004: £5.3m) and the weighted average number of shares in issue during the period of 296,693,558 (2004: 201,290,345).

The calculation of diluted earnings per share is based on the profit for the financial year of £39.9m (2004: £5.3m) and the weighted average number of shares in issue, adjusted to assume the exercise of options over shares and the effect of dilutive earn out shares to be issued, of 396,620,913 (2004: 293,026,616).

Due to the size of non-cash items, in particular goodwill amortisation, the Group has adjusted its earnings per ordinary share to exclude goodwill amortisation (of its subsidiary undertakings) and exceptional items. Adjusted earnings per ordinary share excludes amortisation of goodwill of £16.4m (2004: £9.6m) and exceptional items of £1.0m profit (2004: £5.1m loss).

12. Intangible assets – Goodwill

	£m
Group	
Cost	
At 1 August 2004	150.8
Additions (see note 23)	247.2
Exchange adjustments	8.8
Other movements	22.7
At 31 July 2005	**429.5**
Amortisation	
At 1 August 2004	26.6
Charge for the period	16.0
Exchange adjustments	0.4
At 31 July 2005	**43.0**
Net book value	
At 31 July 2005	**386.5**
At 31 July 2004	124.2

The other movements arose as a result of changes in the underlying value of the amount payable due to the movements in the price of shares to be issued to satisfy the contingent consideration sums. Details of acquisitions in the year are set out in note 23.

13. Tangible assets

	Fixtures, fittings and equipment £m	Motor vehicles £m	Computer Software and equipment £m	Total £m
Group				
Cost				
As at 1 August 2004	2.4	0.1	7.9	10.4
Additions	0.7	0.1	5.6	6.4
Exchange adjustments	–	–	0.4	0.4
As at 31 July 2005	**3.1**	**0.2**	**13.9**	**17.2**
Depreciation				
As at 1 August 2004	1.7	0.1	3.4	5.2
Charge for the period	0.3	–	2.7	3.0
Exchange adjustments	–	–	0.2	0.2
As at 31 July 2005	**2.0**	**0.1**	**6.3**	**8.4**
Net book value				
As at 31 July 2005	**1.1**	**0.1**	**7.6**	**8.8**
As at 31 July 2004	0.7	–	4.5	5.2

	Fixtures, fittings and equipment £m	Computer equipment £m	Total £m
Company			
Cost			
As at 1 August 2004	0.9	0.2	1.1
Transfer to subsidiary undertaking	(0.9)	(0.2)	(1.1)
As at 31 July 2005	**–**	**–**	**–**
Depreciation			
As at 1 August 2004	0.8	0.2	1.0
Transfer to subsidiary undertaking	(0.8)	(0.2)	(1.0)
As at 31 July 2005	**–**	**–**	**–**
Net book value			
As at 31 July 2005	**–**	**–**	**–**
As at 31 July 2004	0.1	–	0.1

The net book value of tangible fixed assets for the Group includes an amount of £0.4m (2004: £0.3m) of assets held under finance leases. The Company had no assets under such leases at either period end.

Notes to the Financial Statements
(continued)

14. Investments

	Investment in joint ventures £m	Shares in associated undertakings £m	Total £m
Group			
Cost			
As at 1 August 2004	–	2.2	2.2
Additions (see note 23)	6.4	–	6.4
Reclassification of joint venture	2.2	(2.2)	–
Exchange adjustments	0.1	–	0.1
As at 31 July 2005	**8.7**	**–**	**8.7**
Share of retained profits			
As at 1 August 2004	–	0.5	0.5
Profit for year	–	0.4	0.4
Reclassification of joint venture	0.9	(0.9)	–
As at 31 July 2005	**0.9**	**–**	**0.9**
Amortisation of goodwill			
As at 1 August 2004	–	–	–
Charge for year	(0.4)	(0.1)	(0.5)
Reclassification to joint venture	(0.1)	0.1	–
Exchange adjustments	(0.1)	–	(0.1)
As at 31 July 2005	**(0.6)**	**–**	**(0.6)**
Net book value			
As at 31 July 2005	**9.0**	**–**	**9.0**
As at 31 July 2004	–	2.7	2.7

The investment in joint ventures represents the Group's interest in the software platform for its US facing business which is held as goodwill. The joint venture has no other assets or liabilities as at 31 July 2005.

	Shares in subsidiary undertakings £m	Shares in associated undertakings £m	Total £m
Company			
Investment in subsidiary undertakings			
As at 1 August 2004 as previously reported	99.4	2.2	101.6
Prior year adjustment	45.7	–	45.7
As at 1 August 2004 (restated)	145.1	2.2	147.3
Reclassification to joint venture	–	(2.2)	(2.2)
As 31 July 2005	**145.1**	**–**	**145.1**

In prior years, certain investments were recorded at the nominal value of shares issued together with the fair value of any other consideration (see Note 2).

Acquisitions of subsidiaries are stated net of adjustments arising for discounting of contingent consideration.

14. Investments (continued)

The following principal trading subsidiaries were wholly owned at 31 July 2005:

Directly owned	Activity	Country of incorporation or registration
Eurosportwetten Limited	On-line and telephone betting	England
Interactive Sports Limited	On-line and telephone betting	England
Fincorp Propiedades F.P. S.A.	Administrative services	Costa Rica
Sportingbet Australia Pty Limited	On-line and telephone betting	Australia
Internet Opportunity Entertainment Limited	On-line and telephone betting	Antigua & Barbuda
Alea Software Limited	Administrative services	Canada
Platinum Management Advisors S.A.	Administrative services	Costa Rica
Sporting Odds Limited	On-line and telephone betting	England
MLB Limited	Contract Call Centre	Ireland
Sportingbet (Management Services) Limited	Administrative services	England

For all undertakings listed above, the country of incorporation is the same as the country of operation, except Eurosportwetten Limited which operates in Austria.

15. Debtors

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Due within one year:				
Other debtors	**16.6**	6.0	**–**	0.7
Prepayments and accrued income	**5.6**	2.3	**–**	0.5
Owed by subsidiary undertakings	**–**	–	**187.8**	6.2
	22.2	8.3	**187.8**	7.4

The Company has agreed to provide its subsidiary undertakings with such financial support as is necessary to enable the subsidiary to continue to trade and meet its obligations to third party creditors as and when they fall due.

16. Cash at bank and in hand

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Cash	**32.3**	10.8	**–**	0.8
Short-term cash deposits	**19.7**	4.5	**–**	–
Restricted cash	**15.0**	5.0	**5.1**	–
	67.0	20.3	**5.1**	0.8

Restricted cash includes £5.1m (2004: £Nil) held in a designated account in relation to certain employee share obligations (see Remuneration Report on pages 28 to 29). Other restricted cash relates to cash deposits held in designated accounts which have certain restrictions for up to six months.

Notes to the Financial Statements
(continued)

17. Creditors – amounts falling due within one year

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Bank overdrafts	**–**	10.3	**–**	10.3
Bank loans (net of unamortised fees of £1.3m (2004: £Nil))	**41.5**	7.0	**41.5**	7.0
Trade creditors	**3.3**	2.3	**–**	0.2
Other creditors	**14.6**	18.3	**–**	15.7
Customer liabilities	**32.0**	15.8	**–**	–
Tax and social security	**1.0**	0.3	**–**	0.2
Accruals and deferred income	**12.9**	3.6	**4.5**	1.6
Obligations under finance leases	**0.1**	0.3	**–**	–
Deferred consideration	**3.2**	–	**0.9**	–
Due to subsidiary undertakings	**–**	–	**–**	28.1
	108.6	57.9	**46.9**	63.1

Other creditors include re-scheduled amounts due to the vendors of Internet Opportunity Entertainment Limited of £Nil (2004: £15.7m) and consideration owing to the vendors of the business of ISC Entertainment Inc of £9.4m.

Deferred consideration of £3.2m (2004: £Nil) relates to £2.3m owed in relation to the joint venture arrangement with World Gaming, and £0.9m due under the Number One Betting Shop earn out arrangement.

18. Creditors – amounts falling due after more than one year

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Obligations under finance leases	**–**	0.1	**–**	–
Bank loans	**20.8**	–	**20.8**	–
	20.8	0.1	**20.8**	–

19. Provisions for liabilities and charges

	Contingent consideration £m	Chargeback provision £m	Long Term Incentive Plan £m	Total £m
Group				
At 1 August 2004	0.8	0.3	0.6	1.7
Charged to profit and loss account	–	0.2	1.5	1.7
Transfer to creditors within one year	(0.9)	–	–	(0.9)
Acquisitions	28.5	0.1	–	28.6
Other movements	(3.9)	–	–	(3.9)
Finance charge on discounting contingent consideration	0.9	–	–	0.9
Exchange adjustments	1.1	0.1	–	1.2
At 31 July 2005	**26.5**	**0.7**	**2.1**	**29.3**
Company				
At 1 August 2004	0.8	–	0.6	1.4
Charged to profit and loss account	–	–	0.8	0.8
Transfer to creditors within one year	(0.9)	–	–	(0.9)
Transfer to subsidiary undertaking	–	–	(0.1)	(0.1)
Exchange adjustments	0.1	–	–	0.1
At 31 July 2005	**–**	**–**	**1.3**	**1.3**

The contingent consideration as at 31 July 2005 is in respect of the acquisitions of Paradise Poker and the business and certain assets of ISC Entertainment Inc. during the year.

The finance charge on discounting of deferred consideration arose from the requirement under FRS7 to discount consideration, deferred in respect of acquisitions, back to current values.

Other movements relate to adjustments arising from the discounting of the contingent consideration in accordance with FRS7.

20. Financial instruments

Financial assets 2005	Financial assets at floating rate of up to 2.9% Total £m
Currency	
Sterling	16.5
US dollar	49.5
Other	1.0
	67.0

Financial assets 2004	
Currency	
Sterling	1.4
US dollar	18.1
Other	0.8
	20.3

Notes to the Financial Statements
(continued)

20. Financial instruments (continued)

Financial liabilities 2005	Fixed rate financial liabilities Weighted average interest rate %	Number of years for which rate is fixed	Amount £m	Floating rate financial liabilities £m	Total £m
Currency					
US dollar	Nil	–	23.6	–	23.6
US dollar	Nil	–	2.9	–	2.9
US dollar	Nil	–	2.3	–	2.3
Australian dollar	Nil	–	0.9	–	0.9
Australian dollar	Nil	–	0.1	–	0.1
Sterling	4.9	1	52.3	–	52.3
Sterling	6.6	–	–	10.0	10.0
			82.1	10.0	92.1

Financial liabilities 2004					
Currency					
US dollar	Nil	–	13.8	–	13.8
US dollar	Nil	–	1.9	–	1.9
Australian dollar	Nil	–	0.8	–	0.8
Australian dollar	5.6	–	0.1	–	0.1
Sterling	5.7	–	–	7.0	7.0
Sterling	6.0	–	–	10.3	10.3
Sterling	7.4	–	0.3	–	0.3
			16.9	17.3	34.2

Short term debtors and creditors are excluded from the above. Floating rate financial assets and liabilities are at interest rates determined in advance for periods of up to one month based on LIBOR equivalents.

The fixed rate borrowings as at 31 July 2005 are in respect of a bank loan of £52.3m (net of unamortised fees of £1.3m).

The floating rate borrowings as at 31 July 2005 of £10.0m (2004: £Nil) are in respect of a bank loan bearing an interest rate of 1.25% above LIBOR.

There were no significant differences between book amounts and fair values of any of the Group's financial assets and liabilities.

Floating rate financial assets of £67.0m at 31 July 2005 (2004: £20.3m) are held on deposits bearing interest at call rates. There are no other financial assets.

Maturity of financial liabilities	Contingent and deferred consideration 2005 £m	Bank loans & overdrafts 2005 £m	Finance leases 2005 £m	Total 2005 £m	Total 2004 £m
The maturity profile of the Group's financial liabilities at 31 July 2005 was as follows:					
In one year or less	**3.2**	**41.5**	**0.1**	**44.8**	34.1
In more than one year but not more than two years	**–**	**20.8**	**–**	**20.8**	0.1
In more than two years	**26.5**	**–**	**–**	**26.5**	–
	29.7	**62.3**	**0.1**	**92.1**	34.2

20. Financial instruments (continued)

Borrowing facilities	2005 £m	2004 £m
The Group had undrawn committed borrowing facilities at 31 July 2005, as follows:		
Expiring in one year or less	**–**	–
Expiring in more than one year but not more than two years	**5.0**	–
Expiring in more than two years	**–**	–
	5.0	–

Currency exposures

As explained within the Financial Review, the Group's objectives in managing the currency exposures arising from its net investments overseas (in other words, its structural currency exposures) are to maintain a low cost of borrowings and to retain some potential for currency-related appreciation while partially hedging against currency depreciation. Gains and losses arising from these structural currency exposures are recognised in the statement of total recognised gains and losses.

The table below shows the Group's currency exposures; in other words, those transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or 'functional') currency of the operating unit involved, other than certain non-sterling borrowings treated as hedges of net investments in overseas operations. As at 31 July 2005 those exposures were as follows:

	Net foreign currency monetary assets				
Functional currency of Group operation	US dollar £m	Euro £m	Australian dollar £m	Other £m	Total £m
Sterling	0.3	4.2	3.5	0.4	8.4

The exposures at 31 July 2004 for comparison purposes were as follows:

	Net foreign currency monetary assets				
Functional currency of Group operation	US dollar £m	Australian dollar £m	HK dollar £m	Other £m	Total £m
Sterling	0.1	0.2	0.2	0.2	0.7

Narrative disclosures on the Group treasury policy are given on pages 18 and 19.

21. Share capital

	2005 £000s	2004 £000s
Authorised:		
1,000 million (2004: 1,000 million) ordinary shares of 0.1p each	**1,000**	1,000
Allotted, issued and fully paid:		
At 31 July 2004: 212,350,949 shares of 0.1p each	**212**	170
Issues in respect of acquisitions: 56,677,388 shares	**57**	42
Issues in respect of exercised share options: 4,132,778 shares	**4**	–
Issues in respect of shareplacing: 54,545,454 shares	**55**	–
At 31 July 2005: 327,706,569 shares of 0.1p each	**328**	212

Notes to the Financial Statements
(continued)

21. Share capital (continued)

At 31 July 2005 the following share options were outstanding in respect of ordinary shares:

Date of grant	Ordinary shares of 0.1 pence	Period of option	Exercise price (p)
Year ended 31 March 2000	250,000	December 2001 – December 2006	65
Year ended 31 March 2001	249,166	April 2002 – March 2008	94-145
Year ended 31 March 2003	1,765,000	May 2005 – January 2010	32-83
December 2003	1,620,000	December 2006 – December 2010	39.5
December 2003	100,000	December 2006 – December 2010	36.6
January 2004	3,999,375	January 2007 – January 2011	49
February 2004	100,000	February 2007 – January 2011	39.5
April 2004	200,000	April 2007 – April 2011	80
April 2004	300,000	April 2007 – April 2011	81
October 2004	785,000	October 2007 – October 2011	100
November 2004	1,000,000	November 2007 – November 2014	131
January 2005	20,000	January 2008 – January 2015	188.5
April 2005	100,000	April 2008 – April 2015	271

At 31 July 2005 there were 10,488,541 options over ordinary shares outstanding, 2,250,000 of which relate to Directors, details of which can be found in the Remuneration Report on pages 28 to 29.

22. Reserves

	Share premium account £m	Shares to be issued £m	Other reserve £m	Profit and loss account £m
Group				
At 1 August 2004	52.5	26.7	21.3	0.3
Acquisitions	78.5	46.4	–	–
Share placing	60.0	–	–	–
Employee share options	2.3	–	–	–
Transfer arising on cancellation of Share Premium	(192.7)	–	(21.0)	213.7
Retained profit	–	–	–	36.5
Foreign currency exchange	–	–	–	10.0
At 31 July 2005	**0.6**	**73.1**	**0.3**	**260.5**
Company				
At 1 August 2004 (as previously reported)	52.5	2.0	0.3	(9.6)
Prior year adjustment	21.0	24.7	–	–
At 1 August 2004 (restated)	73.5	26.7	0.3	(9.6)
Acquisitions	78.5	46.4	–	–
Share placing	60.0	–	–	–
Employee share options	2.3	–	–	–
Transfer arising on cancellation of Share Premium	(213.7)	–	–	213.7
Loss for period	–	–	–	(9.4)
At 31 July 2005	**0.6**	**73.1**	**0.3**	**194.7**

Reserves have been restated to reflect the change in accounting policy as described in Note 2.

The movement in Group shareholders' funds of £233.8m (2004: £12.6m) is wholly represented by the movements shown in reserves and share capital in notes 21 and 22.

22. Reserves (continued)

The movement in shares to be issued of £46.4m represents a combination of the fair value of shares to be issued relating to acquisitions during the year of £23.7m and adjustments to the fair value of shares to be issued following changes in the Company's share price and foreign exchange movements of £22.7m.

During the year the Company obtained Court approval to cancel its Share Premium and transfer the balance to distributable reserves.

23. Acquisitions

Acquisitions made in the period

(a) Paradise Poker

On 3 November 2004 the Group acquired the business and certain assets of Paradise Poker. In calculating the goodwill arising on acquisition, the fair value of net assets of Paradise Poker has been assessed and adjustments from book value have been made where necessary. These adjustments are summarised in the following table:

	Book value on acquisition £m	Fair value adjustment £m	Fair value to the Group £m
Cash	7.9	–	7.9
Tangible fixed assets	1.3	(1.3)	–
Debtors	0.5	–	0.5
Creditors	(8.4)	–	(8.4)
Net assets	1.3	(1.3)	–
Consideration			224.4
Net assets acquired			–
Goodwill arising on acquisition			224.4

The fair value adjustment relates to the write-down of software on acquisition.

The fair value of consideration as at 3 November 2004 comprised:

		£m
Cash		110.7
Shares		78.5
Contingent consideration	– cash	21.7
	– shares	13.5
Consideration (including £4.9m expenses)		224.4

Contingent consideration payments due to the vendor are based on profit performance and may fall due on or before 2 November 2008. Contingent cash consideration has been discounted back to current values in accordance with FRS7. The investment, including contingent cash consideration, was denominated in US dollars and is therefore subject to exchange rate fluctuations. The fair value of contingent consideration to be satisfied by the issue of shares is subject to both exchange rate fluctuations and movement in the Company's share price. The actual number of shares to be issued is capped.

The fair value of consideration as at 31 July 2005 comprised:

		£m
Cash		114.9
Shares		81.9
Contingent consideration	– cash	22.7
	– shares	36.2
Consideration (including £5.1m expenses)		255.7

Notes to the Financial Statements
(continued)

23. Acquisitions (continued)

The summarised consolidated profit and loss accounts of Paradise Poker for the periods immediately prior to its acquisition by the Group are:

	1 January 2004 to 2 November 2004 £m	Year ended 31 December 2003 £m
Turnover	29.7	25.7
Gross profit	29.7	25.7
Administrative expenses	(11.0)	(8.7)
Exceptional costs	–	(2.0)
Profit before taxation	18.7	15.0
Taxation	–	–
Profit after taxation	18.7	15.0

There were no other recognised gains or losses in these periods.

(b) World Gaming

On 4 April 2003, the Group acquired 5,000,000 shares in World Gaming Plc, the parent company of the software licensing company which provides the online platform for the Group's Americas Division. This acquisition included the right to acquire a further 7,500,000 shares at US$0.12 per share any time prior to and including 4 April 2005. This shareholding was increased to 29.5% in July 2003. The fair value of consideration as at 31 July 2004 comprised:

	£m
Cash	2.2
Consideration (including expenses of £0.3m)	2.2

On 1 October 2004, the Group restructured its relationship with World Gaming Plc from an investment in an associate to a joint venture arrangement. The new arrangements provide the Group with joint ownership of the software platform for its US facing business and control over the future development of the software. The fair value of consideration, including the original investment in associate, as at 1 October 2004 comprised:

	£m
Cash	4.8
Deferred consideration – cash	3.8
Consideration (including expenses of £0.7m)	8.6

The investment, including deferred cash consideration, is denominated in US dollars and is therefore subject to exchange rate fluctuations. The fair value of consideration as at 31 July 2005 comprised:

	£m
Cash	6.4
Deferred consideration – cash	2.3
Consideration (including expenses of £0.7m)	8.7

The whole of purchase price has been treated as goodwill as both the book and fair values of the assets acquired were negligible.

23. Acquisitions (continued)

(c) ISC Entertainment Inc

Effective on 31 July 2005, the Group acquired the business and certain assets of ISC Entertainment Inc ("ISC"), previously a white label partner of the Group and the owner of certain US-facing sports betting and gaming marketing operations including mysportsbook.com. In calculating the goodwill arising on acquisition, the fair value of net assets of ISC has been assessed and adjustments from book value have been made where necessary. These adjustments are summarised in the following table:

	Book value on acquisition £m	Fair value adjustment £m	Fair value to the group £m
Debtors	0.8	–	0.8
Creditors	(0.8)	–	(0.8)
Net assets	–	–	–
Consideration			22.8
Net assets acquired			–
Goodwil arising on acquisition			22.8

The fair value of consideration as at 31 July 2005 comprised:

	£m
Cash to be paid	9.7
Shares to be issued	10.2
Contingent consideration – cash	2.9
Consideration (including expenses of £0.3m)	22.8

Contingent consideration payments due to the vendor are based on profit performance and may fall due within the three years ending 31 July 2008. Contingent cash consideration has been discounted back to current values in accordance with FRS7. Contingent cash consideration was denominated in US dollars is therefore subject to exchange rate fluctuations until such time as consideration is paid.

24. Commitments under operating leases

	2005 £m	2004 £m
At 31 July 2005 the Group had annual commitments under non-cancellable operating leases as follows:		
Land and buildings		
Expiring within 1 year	**0.1**	0.7
Expiring in 2-5 years inclusive	**0.4**	0.4
Continuing for more than 5 years	**0.1**	1.3
	0.6	2.4

The leases are subject to periodic rent reviews.

Notes to the Financial Statements
(continued)

25. Cash flows

	2005 £m	2004 £m
(a) Reconciliation of operating profit to net cash flow from operating activities		
Operating profit	**45.1**	7.0
Amortisation – goodwill	**16.4**	9.6
Depreciation	**3.0**	2.3
(Increase)/decrease in debtors	**(14.3)**	1.8
Increase in creditors	**19.1**	4.9
Unrealised translation differences	**2.5**	
(1.3)		
Net cash inflow from operating activities	**71.8**	24.3

	2005 £m	2004 £m
(b) Analysis of cash flows for headings netted in the cash flow statement		
Returns on investments and servicing of finance		
Interest received	**0.5**	0.1
Interest paid	**(5.1)**	(1.4)
Interest element of finance leases	**(0.1)**	(0.1)
Net cash outflow for returns on investments and servicing of finance	**(4.7)**	(1.4)
Capital expenditure		
Purchase of tangible fixed assets	**(6.4)**	(3.5)
Net cash outflow for capital expenditure	**(6.4)**	(3.5)
Acquisitions		
Cash consideration and other sums paid to vendors	**(126.4)**	(25.1)
Cash acquired with subsidiary undertakings	**0.1**	–
Investment in joint venture	**(3.7)**	–
Investment in associated undertakings	**–**	(2.2)
Net cash outflow for acquisitions	**(130.0)**	(27.3)
Management of liquid resources		
(Increase)/decrease in short term deposits	**(17.4)**	1.3
Net cash (outflow)/inflow from management of liquid resources	**(17.4)**	1.3
Financing		
Exercise of share options	**2.3**	0.1
Issue of ordinary share capital	**60.0**	–
New bank loan	**85.0**	10.0
Repayment of bank loan	**(28.4)**	(3.0)
Repayment of loan notes	**–**	(9.0)
Capital element of finance lease	**(0.3)**	(0.3)
Net cash inflow/(outflow) from financing	**118.6**	(2.2)

25. Cash flows (continued)

	At 31 July 2004 £m	Cash flows £m	Acquisitions £m	Other movements £m	**At 31 July 2005 £m**
(c) Reconciliation of net cash flow to movement in net funds					
Cash	10.8	21.5	–	–	**32.3**
Liquid resources	9.5	17.4	7.8	–	**34.7**
	20.3	38.9	7.8	–	**67.0**
Bank overdrafts	(10.3)	10.3	–	–	**–**
	10.0	49.2	7.8	–	**67.0**
Debt due within 1 year	(7.0)	(35.8)	–	1.3	**(41.5)**
Debt due after 1 year	–	(20.8)	–	–	**(20.8)**
Finance Leases	(0.4)	0.3	–	–	**(0.1)**
	(7.4)	(56.3)	–	1.3	**(62.4)**
Total	2.6	(7.1)	7.8	1.3	**4.6**

	£m
(d) Net cash outflow arising from acquisitions	
Cash consideration and other sums paid to vendors	(126.4)
Cash acquired with subsidiary undertaking	0.1
Investment in joint venture	(3.7)
Net cash outflow	(130.0)

26. Related parties

During the period, S O'Connor provided marketing consulting services to the Group via Trillium Venture Developments Limited, amounting to £10,000 (2004: £40,000).

27. Contingent liabilities

From time to time the Group is subject to legal claims and actions. The Group takes legal advice as to the likelihood of success of the claims and actions and no provision or disclosure is made where the Directors feel, based on that advice, that action is unlikely to result in a material loss or a sufficiently reliable estimate of the potential obligation cannot be made.

28. Post balance sheet events

Details of Post Balance Sheet events are disclosed within the Directors' Report on page 27.

Explanation of Transition to International Financial Reporting Standards ("IFRS")

Basis of Preparation

The Group's consolidated financial statements have been prepared in accordance with the Companies Act 1985 and United Kingdom Accounting Standards ("UK GAAP"). UK GAAP differs in certain respects from IFRS. The Group anticipates adopting IFRS for its year ending 31 July 2008 with an opening IFRS balance sheet for its transitional year at 1 August 2006. Illustrated below are the material areas where it is expected that IFRS would impact on the Group results had it been adopted for the year ended 31 July 2005. This financial information has been prepared in accordance with IFRS endorsed as at 26 February 2005. As IFRS is subject to ongoing review and endorsement by the European Commission or possible amendment by the International Accounting Standards Board, possible future changes could result in an adjustment to the financial information and disclosure included in this document prior to the issue of financial statements under IFRS.

An explanation of how the transition from UK GAAP to IFRS would affect the Group's financial position and financial performance is set out in the following tables and notes that accompany the tables:

Group Profit and Loss Account Under IFRS for the year ended 31 July 2005 (unaudited)

	Notes	**UK GAAP 31 July 2005 £m**	Effect of IFRS £m	**UK GAAP adjusted for IFRS 31 July 2005 £m**
Turnover				
Continuing operations		**1,483.4**	–	**1,483.4**
Acquisitions		**42.8**	–	**42.8**
Turnover		**1,526.2**	–	**1,526.2**
Cost of sales		**(1,350.4)**	–	**(1,350.4)**
Gross profit		**175.8**	–	**175.8**
Exceptional items		**1.0**	–	**1.0**
Goodwill amortisation	1	**(16.4)**	16.4	**–**
Other administration expenses	2	**(115.3)**	(0.6)	**(115.9)**
Net operating expenses (including exceptional items)		**(130.7)**	15.8	**(114.9)**
Operating profit before exceptional items and goodwill amortisation		**60.5**	(0.6)	**59.9**
Exceptional items		**1.0**	–	**1.0**
Goodwill amortisation	1	**(16.4)**	16.4	**–**
Operating profit				
Continuing operations		**25.7**	6.8	**32.5**
Acquisitions		**19.4**	9.0	**28.4**
Operating profit		**45.1**	15.8	**60.9**
Share of operating profit in associated undertaking	1	**0.3**	0.1	**0.4**
Profit on ordinary activites before interest		**45.4**	15.9	**61.3**
Interest payable and similar charges		**(4.6)**	–	**(4.6)**
Profit on ordinary activities before taxation		**40.8**	15.9	**56.7**
Taxation		**(0.9)**	–	**(0.9)**
Profit on ordinary activities after taxation		**39.9**	15.9	**55.8**
Dividend	3	**(3.4)**	3.4	**–**
Profit for financial period		**36.5**	19.3	**55.8**

Group Balance Sheet Under IFRS as at 31 July 2005 (unaudited)

	Notes	UK GAAP 31 July 2005 £m	Effects of IFRS £m	UK GAAP adjusted for IFRS 31 July 2005 £m
Fixed assets				
Intangible fixed – goodwill	1	**386.5**	16.0	**402.5**
Tangible assets		**8.8**	–	**8.8**
Investments	1	**9.0**	0.5	**9.5**
		404.3	16.5	**420.8**
Current assets				
Debtors – amounts falling due within one year		**22.2**	–	**22.2**
Cash at bank and in hand		**67.0**	–	**67.0**
		89.2	–	**89.2**
Creditors – amounts falling due within one year	3	**(108.6)**	3.4	**(105.2)**
Net current (liabilities)/assets		**(19.4)**	3.4	**(16.0)**
Total assets less current liabilities		**384.9**	19.9	**404.8**
Creditors – amounts falling due after more than one year		**(20.8)**	–	**(20.8)**
Provisions for liabilities and charges		**(29.3)**	–	**(29.3)**
		(50.1)	–	**(50.1)**
Net assets		**334.8**	19.9	**354.7**
Capital and reserves				
Called up share capital		**0.3**	–	**0.3**
Shares to be issued		**73.1**	–	**73.1**
Share premium		**0.6**	–	**0.6**
Share option reserve	2	**–**	0.6	**0.6**
Other reserves		**0.3**	–	**0.3**
Profit and loss account		**260.5**	19.3	**279.8**
Equity shareholders' funds		**334.8**	19.9	**354.7**

Explanation of Transition to International Financial Reporting Standards ("IFRS")
(continued)

Notes Under IFRS

1. The Group has chosen to elect for the first time adoption exemption for IFRS 3 and account for business combinations under IFRS 3 only for those acquisitions which occur after the date of transition (which is anticipated to be 1 August 2006). Goodwill will be recognised at fair value at the date of transition. Under IFRS 3, goodwill acquired in a business combination is not amortised. Instead goodwill is tested annually for impairment. The illustration has been produced on the basis that under IFRS no goodwill amortisation would be charged for the year.

2. The Group has applied the requirements of IFRS 2 Share-based payments.

   The Group issues equity-settled and cash-settled share-based payments to certain employees. Under IFRS 2, equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

   Fair value is measured by use of a suitable option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

3. Under IAS 10 dividends are recognised after they have been approved by shareholders.

Notice of Meeting
for the year ended 31 July 2005

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at the offices of Investec, 2 Gresham Street, London EC2V 7QP on 16 December 2005 at 10.30 a.m. for the following purposes:

Ordinary Business

To consider, and if thought fit, pass the following Ordinary Resolutions:

Resolution 1

To receive and adopt the Accounts for the year ended 31 July 2005 and the Reports of the Directors and auditors in relation to the same.

Resolution 2

To approve the Remuneration Committee's Report set out on pages 28 and 29 of the Annual Report for the year ended 31 July 2005.

Resolution 3

To re-appoint BDO Stoy Hayward LLP as auditors of the Company to hold office until the conclusion of the next General Meeting at which accounts are laid before the Company.

Resolution 4

To authorise the Directors to set the remuneration of the auditors.

Resolution 5

To re-elect Peter Frederick Dicks as a Director.

Resolution 6

To re-elect Andrew Ross McIver as a Director.

Resolution 7

To confirm a final dividend on the ordinary shares of 1pence per ordinary share in respect of the year ended 31 July 2005, payable on 4 January 2006 to ordinary shareholders on the register at the close of business on 25 November 2005.

Special Business

To consider, and if thought fit, pass the following resolutions, of which Resolutions 8 and 10 will be proposed as ordinary resolutions and Resolutions 9, 11 and 12 will be proposed as special resolutions:

Resolution 8

That, in substitution for all previous like authorities, which are hereby revoked, pursuant to and in accordance with Section 80 of the Companies Act 1985 the Directors be and hereby generally and unconditionally are authorised to exercise all powers of the Company to allot relevant securities within the terms of the restrictions and provisions following, namely:

(i) to allot up to an aggregate nominal amount of £83,172 in connection with a convertible loan note instrument between the Company and DBS Advisors, Ltd;

(ii) to allot up to an aggregate nominal amount of £9,772 in connection with a share purchase agreement between the Company, Internet Opportunity Entertainment Limited, Platinum Management Advisors S.A., RGH Holdings Inc. and Bonaire Investment Holdings Limited and others; and

(iii) to allot (otherwise than pursuant to sub-paragraphs (i) and (ii) of this Resolution 8) up to an aggregate nominal amount of £112,441.

This authority shall (unless previously revoked, varied or renewed) expire on whichever is the earlier of the conclusion of the Annual General Meeting of the Company next following the passing of this Resolution, and 31 December 2006.

For the purposes of this Resolution 8 the said authority shall allow and enable the Directors to make an offer or agreement before the expiry of that authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired, and words or expressions defined in or for the purposes of Part IV of the Companies Act 1985 shall bear the same meaning herein.

Resolution 9

That pursuant to and in accordance with Section 95 of the Companies Act 1985 the Directors be and are hereby given power to, subject to the passing of Resolution 8 above, allot equity securities for cash pursuant to the general authority conferred upon the Directors in Resolution 8 above as if sub-section (1) of Section 89 of the Companies Act 1985 did not apply to any such allotment, provided that this power here granted shall be limited to:

(i) the allotment of equity securities in connection with or pursuant to an offer of equity securities open for acceptance for a period fixed by the Directors to holders on the register on a record date fixed by the Directors of ordinary shares in the capital of the Company in proportion to their respective holdings (for which purpose holdings in certificated and uncertificated form may be treated as separate holdings) but subject to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of or the requirements of any recognised regulatory body or any stock exchange in any territory;

(ii) the allotment of equity securities up to an aggregate nominal amount of £83,172 in connection with a convertible loan note instrument between the Company and DBS Advisors, Ltd;

(iii) to allot up to an aggregate nominal amount of £9,772 in connection with a share purchase agreement between the Company, Internet Opportunity Entertainment Limited, Platinum Management Advisors S.A., RGH Holdings Inc. and Bonaire Investment Holdings Limited and others; and

(iv) the allotment (otherwise than pursuant to sub-paragraphs (i), (ii) and (iii) of this Resolution 9) of equity securities up to an aggregate nominal amount of £16,866, and shall (unless previously revoked, varied or renewed) expire on whichever is the earlier of the conclusion of the next Annual General Meeting of the Company following the passing of this Resolution, and 31 December 2006.

For the purposes of this Resolution 9 the said power shall allow and enable the Directors to make an offer or agreement before the expiry of that power which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if such power conferred hereby had not expired, the nominal amount of any securities shall be taken to be, in the case of rights to subscribe for or convert any securities into shares of the Company, the nominal amount of any such shares which may be allotted pursuant to such rights, and words and expressions defined in or for the purposes of Part IV of the Companies Act 1985 shall bear the same meaning herein.

Resolution 10

That in accordance with section 347C of the Companies Act 1985 (the **"Act"**) the Company be authorised:

(i) to make donations to EU political organisations, as defined in section 347A of the Act, not exceeding £100,000 in total; and

(ii) to incur EU political expenditure, as defined in section 347A of the Act, not exceeding £100,000 in total,

during the period beginning with the date of the passing of this Resolution and ending on 31 December 2006 or, if earlier, the conclusion of the AGM to be held in 2006.

Resolution 11

That, pursuant to article 7(C) of the Company's articles of association, the Company is hereby generally and unconditionally authorised for the purposes of section 166 of the Companies Act 1985 (the **"Act"**) to make market purchases (within the meaning of section 163(3) of the Act) of any of its ordinary shares of 0.1p each in the capital of the Company on such terms and in such manner as the Directors may from time to time determine provided that:

(i) the maximum number of ordinary shares which may be purchased is 33,732,469 representing approximately 10 per cent. of the issued ordinary share capital at 21 October 2005;

(ii) the minimum price which maybe paid for each ordinary share is 0.1p which amount shall be exclusive of expenses, if any;

(iii) the maximum price which may be paid for each ordinary share is an amount equal to 105 per cent. of the average of the middle market quotations for the ordinary shares of the Company as derived from the Daily Official List of the London Stock Exchange plc for the five business days immediately preceding the day on which such share is contracted to be purchased;

(iv) unless previously renewed, revoked or varied, this authority shall expire at the conclusion of the annual general meeting in 2006 or 31 December 2006, whichever is the earlier; and

(v) under this authority the Company may make a contract to purchase ordinary shares which would or might be executed wholly or partly after the expiry of this authority, and may make purchases of ordinary shares pursuant to it as if this authority had not expired.

Resolution 12

That the existing articles of association of the Company be and are hereby amended by adopting the regulations set forth in the printed document produced to this meeting and signed by the Chairman for the purposes of identification as the articles of association of the Company, in substitution for and to the exclusion of the existing articles of association.

21 October 2005	By Order of the Board
Registered Office:	
6th Floor	
Transworld House	
82-100 City Road	D. Talisman LLB ACIS
London EC1Y 2BJ	Company Secretary

Notes:

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders on the register of members of the Company as at 6.00 p.m. on Wednesday 14 December 2005 or, if the meeting is adjourned, on the register of members of the Company 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend or vote at the above general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register after 6.00 p.m. on Wednesday 14 December 2005 or, if the meeting is adjourned, on the register of members of the Company 48 hours before the time fixed for the adjourned meeting, shall be disregarded in determining the rights of any person to attend and vote at the meeting.
2. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a **"CREST Proxy Instruction"**) must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
3. A member of the Company eligible to attend and vote at the meeting is entitled to appoint one or more proxies to attend, and on a poll, to vote in his stead. A proxy need not be a member of the Company. A Form of Proxy accompanies this document for your use. To be valid, Forms of Proxy together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof must be deposited at the offices of the Company's Registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. A Form of Proxy must be returned in one of the following methods:
   (a) in hard copy form by post, by courier or by hand to the Company's Registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU;
   (b) electronically through the Company's Registrars' website www.capitaregistrars.co.uk; or
   (c) in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out above.

   Deposit of a Form of Proxy will not prevent a member from attending and voting in person should he so wish.
4. In accordance with the Companies Act 1985 and with the requirements of the UK Listing Authority, a register of Directors' interests in the share capital and Debentures of the Company, together with copies of service agreements under which Directors of the Company are employed, is available for inspection at the Company's registered office during normal business hours and will also be available for inspection at the Annual General Meeting for at least 15 minutes prior to and during the meeting.

Explanatory notes to resolutions:

Resolution 1: The Directors must lay the financial statements and the respective reports of the Directors and auditors before shareholders at a General Meeting.

Resolution 2: This resolution is to approve the Directors' remuneration report for the year ended 31 July 2005. You can find the report in the annual report and accounts for the year ended 31 July 2005.

Resolution 3: At each General Meeting at which accounts are laid before the members, the Company is required to appoint auditors to stand until the next such meeting.

Resolutions 5 and 6: Under the Company's Articles of Association, each Director must stand for re-election every three years. The Directors listed fall under these provisions and, being eligible, seek re-election.

Resolution 8: By Resolution 8, your Directors are seeking authority to allot share capital under section 80 of the Companies Act 1985 in connection with (i) the issue of shares under the convertible loan stock pursuant to $37,457,309 Convertible Loan Notes 2020 issued to DBS Advisors, Ltd, (ii) the issue of shares to Bonaire Investment Holdings Limited as additional consideration pursuant to the share purchase agreement between the Company, Internet Opportunity Entertainment Limited, Platinum Management Advisors S.A., RGH Holdings Inc. and Bonaire Investment Holdings Limited and others dated 28 October 2004 and (iii) otherwise up to one third of the issued share capital of the Company as at 21 October 2005 (so as to include issues of shares in the capital of the Company since 31 July 2005), being in accordance with the guidelines issued by the Investment Protection Committees of the Association of British Insurers and the National Association of Pension Funds.

Resolution 9: By Resolution 9, your Directors are seeking the power to allot shares in the Company for cash in connection with (i) the issue of shares under the convertible loan stock pursuant to $37,457,309 Convertible Loan Notes 2020 issued to DBS Advisors, Ltd, (ii) the issue of shares to Bonaire Investment Holdings Limited as additional consideration pursuant to the share purchase agreement between the Company, Internet Opportunity Entertainment Limited, Platinum Management Advisors S.A., RGH Holdings Inc. and Bonaire Investment Holdings Limited and others dated 28 October 2004 and (iii) otherwise up to five per cent. of the issued share capital of the Company as at 21 October 2005 (so as to include issues of shares in the capital of the Company since 31 July 2005), being in accordance with the guidelines issued by the Investment Protection Committees of the Association of British Insurers and the National Association of Pension Funds.

Resolution 10: The Company has a policy that it does not make donations to, or incur expenditure on behalf of, political parties. However, the Companies Act 1985 (the **"Act"**) contains restrictions on companies making donations or incurring EU political expenditure and it defines these terms very widely, such that activities that form part of the normal relationship between the Company and bodies concerned with policy review, law reform and other business matters affecting the Company may be included. Such activities, which are in the shareholders' interests for the Company to conduct, are not designed to support, or implement support, for a particular political party.

The Company believes that the authority proposed under this Resolution is necessary to ensure that it does not commit any technical breach that could arise from the uncertainty generated by the wide definitions contained within the Act when carrying out activities in the furtherance of its legitimate business interests.

The Company neither made political donations nor incurred political expenditure in the year ended 31 July 2005. The Company does not currently intend to make political donations nor incur political expenditure.

Resolution 11: This Resolution will give the Company authority to purchase its own shares in the market up to a limit of ten per cent. of its issued ordinary share capital. The maximum and minimum prices are stated in the Resolution. Your Directors believe that it is advantageous for the Company to have this flexibility to make market purchases of its own shares. In the event that shares are purchased, they would either be cancelled (and the number of shares in issue would be reduced accordingly) or, subject to the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (as amended by the Companies (Acquisition of Own Shares) (Treasury Shares) No. 2 Regulations 2003) (the **"Regulations"**) which came into force on 1 December 2003, retained as treasury shares. The Regulations enable companies to hold shares repurchased as treasury shares with a view to possible re-sale at a future date rather than having to cancel them. The Company will consider holding repurchased shares pursuant to the authority conferred by this Resolution as treasury shares. This would give the Company the ability to re-issue treasury shares quickly and cost effectively and would provide the Company with additional flexibility in the management of its capital base. Any issues of treasury shares for the purposes of the Company's employee share schemes will be made within the ten per cent. anti-dilution limit set by the Association of British Insurers. Your Directors will only exercise this authority if they are satisfied that a purchase would result in an increase in expected earnings per share and would be in the interests of shareholders generally. The total number of options and warrants to subscribe for ordinary shares outstanding at 21 October, the latest practicable date prior to publication of this document, was 10,120,941 which represented 3.00 per cent. of the issued share capital at that time and which will represent 3.33 per cent. of the issued share capital if the full authority to buy back shares is used. The Company does not currently intend to purchase any of its shares in the market and does not currently hold any treasury shares.

Resolution 12: Since April 2005 when the Company's Articles of Association were last amended, there have been a number of legislative, regulatory and best practice developments which the Board believes should be reflected in the Company's Articles of Association. A number of amendments to the Articles of Association are therefore being proposed to implement these various developments. Details of the principal proposed changes are set out below, the remainder being ancillary thereto or of an administrative, technical or presentational nature.

(a) Treasury Shares

Treasury shares are shares in a listed company which have been purchased by that company under the Regulations, as described in the note to Resolution 10 above. The articles of association already permit the Company to buy back, or agree to buy back in the future, any shares of any class in accordance with the Companies Act 1985 and other applicable laws. It is proposed that the articles of association will be amended to specify that the Company will not exercise any rights (such as voting or dividend rights) in connection with treasury shares other than the right to sell or transfer indicated above, to participate in a bonus issue in respect of them or to redeem them if redeemable.

(b) Indemnity of Officers
The Companies (Audit, Investigations and Community Enterprise) Act 2004 widens the scope of the indemnification of directors and others and inserts a new section 337A in the Companies Act 1985 which allows a company to provide its directors with funds to cover the costs incurred by a director in defending legal proceedings brought against him or her as they are incurred.

Previously, a company has only been able to fund a director's defence costs once final judgment in his or her favour has been reached. Since directors are increasingly being added as defendants in actions against companies, and litigation is often very lengthy and expensive, the Board believes that the risk of Directors being placed under significant financial strain is increasing.

The UK Government consulted widely before introducing the changes to the legislation described above. The Board believes that the power for the Company to enter into contracts of indemnity with the Directors and to fund the Directors' defence costs as they are incurred is fair and reasonable and introduces a more appropriate balance of risk and reward. These measures are also important to ensure that the Company continues to attract and retain Directors of a high calibre.

Accordingly, it is proposed to widen the board's powers to provide indemnification for the Directors and officers of the Company and to make loans to Directors to enable them to defend proceedings.

As a result of these changes:
(i) in the case of liabilities arising from actions brought by third parties both the costs (of the Director and the third party) and any damages may, subject to certain exceptions, be paid by the Company even if judgment is given against the Director;
(ii) in the case of liabilities owing to the Company, the Company will not be able to indemnify a Director against damages awarded to the Company itself but may pay Director's defence costs as they are incurred (although a Director would be liable to repay his defence costs if his defence was to be unsuccessful);
(iii) companies will not be permitted to indemnify Directors against criminal fines, fines by regulators or the legal costs of successful criminal proceedings against Directors; and
(iv) indemnities permitted by the new provisions must be disclosed in the Directors' report in the annual accounts and made available for inspection at the Company's registered office.

The Company intends to agree individual contracts of indemnity with the Directors and others within the limits of new legislation.

Shareholder Information

Registrars
All enquiries relating to shares or shareholdings should be addressed to:
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Telephone 0870 162 3100
Facsimile 020 8639 2342

www.sportingbetplc.com
The Company's website provides, amongst other things, the latest news and details of the Company's activities, share price details, share price information and links to the websites of our brands. The investor relations section of www.sportingbetplc.com contains up-to-date information including the Company's latest results, the Company's financial calendar and webcasts.

www.sportingbet-shares.com
Shareholders who prefer to receive communications about the Company by email are encouraged to register their details at **the Company's shareholder portal –** www.sportingbet-shares.com. You will need your investor code (found on your share certificate or on correspondence from Capita Registrars) to complete this process at the first time of registering. Capita Registrars will send you a username and activation code by post and, upon receipt, you will then be able to access the Company's shareholder portal. The shareholder portal provides shareholders of the Company with the ability to choose from the following services:

(i) Annual Report and Accounts, AGM and EGM Notices and Webcasts
Shareholders can choose to have these e-mailed to a specified e-mail address rather than by post;

(ii) Web Proxy Voting
Shareholders can vote at AGMs or EGMs through www.sportingbet-shares.com or alternatively, via www.capitaregistrars.com by clicking on the quick log in link and entering Sportingbet as the company name. You will need your investor code for this service;

(iii) Announcements made to the Alternative Investment Market
UK-based shareholders can choose to receive certain RNS announcements by e-mail;

(iv) Direct Dividend Payments
Dividends can be paid automatically into your bank or building society account. Two primary benefits of this service are:

- There is no chance of your dividend cheque going missing in the post; and
- The dividend payment is received more quickly because the cash sum is paid directly into the account on the payment date without the need to pay in the cheque and wait for it to clear.

As an alternative, shareholders can download a dividend mandate and complete and post to Capita Registrars;

(v) Change of address
Shareholders can change their address by downloading the form at www.sportingbet-shares.com or by notifying Capita Registrars in writing at the above address;

(vi) Your Shareholding
Shareholders can value their shareholding and view previous transactions in the Company's shares;

(vii) Share Dealing
A share dealing service is available to the Company's shareholders to buy or sell the Company's shares at Capita Share Dealing Services via
www.sportingbetplc.com or
www.sportingbet-shares.com.
Telephone dealing is also available via Capita Registrars at 0870 458 4577.

Please note that the Directors of the Company are not seeking to encourage shareholders to either buy or sell the Company's shares. Shareholders of the Company who are in any doubt as to what action to take are recommended to seek financial advice from an independent financial adviser authorised by the Financial Services and Markets Act 2000.

Non-shareholders can register to receive the Company's Annual Report and Accounts, webcasts and Company news at www.sportingbetplc.com.

Registrations for electronic communications by shareholders and non-shareholders alike will automatically go into the prize draw to win a brand new multimedia laptop![1]

Lost Share Certificate
If your share certificate is lost or stolen, you should immediately contact Capita Registrars on 0870 162 3100 who will advise on the process for arranging a replacement.

Duplicate shareholder accounts
If, as a shareholder, you receive more than one copy of a communication from the Company you may have your shares registered in at least two accounts. This happens when the registration details of separate transactions differ slightly. If you wish to consolidate such multiple accounts, please call Capita Registrars on 0870 162 3100.

ShareGift
ShareGift, is a charity share donation scheme. It is a free service for shareholders wishing to give shares to charitable causes. It may be useful for those who wish to dispose of a small parcel of shares which would cost more to sell than they are worth. There are no capital gains tax implications (i.e. no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Further information can be found at www.sharegift.org.

Financial calendar
Ex-dividend date for 2005 dividend
23 November 2005

Record date for 2005 dividend
25 November 2005

Annual General Meeting,
2 Gresham Street, London EC2V 7QP
16 December 2005

Final dividend payment date for the financial year ended 31 July 2005
4 January 2006

1 Terms & Conditions
www.sportingbetplc.com/269

Financial Summary

	Year ended 31 March 2001 restated £m	Year ended 31 March 2002 restated £m	Year ended 31 March 2003 restated £m	16 month period ended 31 July 2004 restated £m	Year ended 31 July 2005 £m
Turnover	**235.8**	**865.5**	**964.7**	**1,422.8**	**1,526.2**
Gross profit	**13.7**	**56.3**	**69.2**	**108.8**	**175.8**
Operating profit/(loss) before exceptional items and goodwill amortisation	**(2.1)**	**14.3**	**14.6**	**21.7**	**60.5**
Exceptional items	(0.5)	(1.5)	(1.4)	(5.1)	1.0
Goodwill amortisation	(1.0)	(6.3)	(9.6)	(9.6)	(16.4)
Operating profit/(loss)	**(3.6)**	**6.5**	**3.6**	**7.0**	**45.1**
Share of operating profit in associate undertaking	–	–	–	0.4	0.3
Profit/(loss) on ordinary activities before interest	**(3.6)**	**6.5**	**3.6**	**7.4**	**45.4**
Interest and other finance charges	(0.6)	(1.5)	(2.2)	(2.0)	(4.6)
Profit/(loss) on ordinary activities before taxation	**(4.2)**	**5.0**	**1.4**	**5.4**	**40.8**
Earnings per share					
Basic	(3.6p)	3.4p	0.8p	2.6p	13.4p
Basic adjusted	(2.3p)	8.7p	7.1p	10.0p	18.6p
Diluted adjusted	(2.3p)	8.3p	4.1p	6.8p	13.9p

Contact us

sportingbet Plc
Transworld House
82-100 City Road
London EC1Y 2BJ

Website: www.sportingbetplc.com
Email: info@sportingbet.com
Telephone: +44 (0)20 7251 7260
Fax: +44 (0)20 7251 7270

Corporate Directory

Secretary
D Talisman LLB ACIS

Registered Office
6th Floor Transworld House
82-100 City Road
London EC1Y 2BJ

Company Number
3534726

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Auditors
BDO Stoy Hayward LLP
Chartered Accountants
8 Baker Street
London W1U 3LL

Solicitors
Ashurst
Broadwalk House
5 Appold Street
London EC2A 2HA

Corporate Advisors & Stockbrokers
Investec Investment Banking
2 Gresham Street
London EC2V 7QP

Principal Bankers
Barclays Bank Plc
Floor 27
1 Churchill Place
London E14 5HP

Design Dew Gibbons Portrait photography Christine Donnier-Valentin, page 6 by Tom Stockill.
This report has been printed by Empress Litho Ltd who are accredited with the ISO 14001 environmental management system (UKAS ISO 14001: 4284/04E). Produced entirely on one site using vegetable based inks. The paper is made from 50% totally chlorine-free pulp from plantation and sustainable forests, and 50% recycled pre and post consumer waste with de-inked fibres.