EMPIRE ONLINE

ANNUAL REPORT 2005

Five Winning Ways.
One Winning Formula.

Empire Online is a leading provider of marketing services to the online gaming industry. Through online and offline advertising and other marketing techniques, the Group directs new players to its online poker (NoblePoker.com) and online casino websites (Clubdicecasino.com, MonacoGoldcasino.com and Carnivalcasino.com) whose software is provided by Play Tech (one of the leading software providers in the industry).

The Company also has arrangements to market Casino-On-Net (part of 888.com, one of the most established online casino websites).

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OPERATING HIGHLIGHTS

Successful acquisitions of Club Dice casino and bingo platforms and Noble Poker, the largest poker operator on the iPoker network

Final dividend of US6.8cents (3.9pence) per Ordinary Share

Successful listing on AIM raising $222m in gross proceeds

Assignment of Empire Online's PartyGaming related 'skin' operations to PartyGaming for $250m cash

FINANCIAL HIGHLIGHTS

Reported net gaming revenues up 102% to $97.4m (2004: $48.3m.)
Reported profit after amortisation and non recurring charges before taxation up 57% to $41.2m (2004: $26.2m)

Pro forma* net gaming revenues up 61% to $105.2m (2004: $65.2m)

Pro forma* gross profit up 33% to $51.9m (2004: $39m)

Pro forma* profit before amortisation and non recurring charges up 33% to $50.1m (2004: $37.7m)

Active Real Money Players at the end of 2005 rose by 59% to 165,310 (2004: 104,177)

* The pro-forma financial information has been prepared so as to provide comparable information for the transitional year of 2005 during which certain assets were acquired by the Group from Tradal Ltd, a related company incorporated in St. Vincent and the Grenadines. Further details are disclosed within this report.

CHAIRMAN'S STATEMENT

I would like to welcome all shareholders and investors to Empire Online's maiden Annual Report.

This has been a big year of change for all at Empire Online and I would like to express my gratitude to Noam Lanir and the rest of the directors and staff for all of their efforts during this period. Noam has a great understanding of this sector and I believe that with his ongoing enthusiasm and experience the Company is extremely well placed to meet the challenges ahead.

Following the settlement from PartyGaming, Empire Online is in a very strong position financially. The $250m received is currently on deposit and is available to finance the acquisition of complementary businesses that can be acquired at a sensible price. The sector is widely expected to go through a period of consolidation and the Company is uniquely placed to emerge as one of the key players in the industry.

Opportunities for organic growth also remain strong and are being achieved with admirable geographic diversity. At the same time we have significant downside protection to the Company in the unlikely event of any disruption to our US business through any regulatory activities.

Diluted earnings per share after amortisation and non recurring charges were US16.0cents per share for the year. The Board is pleased to recommend a final dividend of $20m which is US6.8cents (3.9pence) per share. Subject to approval at the Company's AGM, the Company anticipates that the final dividend will be paid in August.

Together with the interim dividend of $10m or US3.4cents (1.9pence) per share, this takes the dividends paid to shareholders since the IPO to $30m or US10.2cents (5.8pence) per share. The Board reiterates its intention to continue with a 50% dividend payout ratio going forward.

The opportunities that lie ahead are excellent and the Board remains extremely confident about the future business and profitability of Empire Online.

Lord Steinberg
Chairman

3 April 2006

CHIEF EXECUTIVE'S REVIEW

2005 has been a year of considerable change for the Company. We end the year in a strong and secure position with the last six months in particular seeing a remarkable transformation in the Company. At the time of our IPO in June 2005 we were principally a provider of marketing services to two of the largest online gaming companies in their respective fields: CasinoOnNet and PartyPoker. Now, we have an established and fast growing Licensed Gaming business which operates its own platforms (Club Dice and Noble Poker) and have $250m cash at our disposal to pursue acquisitions which will enable us to play a leading part in industry consolidation.

Operating Review

The twelve months to 31 December 2005 has seen further continued growth across all aspects and areas of the Company, albeit in a manner different to that anticipated at the time of the Company's IPO in June 2005. The number of registered customers across the Group has risen over the course of the twelve months ending 31st December 2005, by 185,456 (2004: 121,257).

Growth in our casino business has led to a total number of active players at the end of the year of 42,304 (2004: 32,711). Total pro-forma revenues for the division were $31.4m (2004: $21.8m) for the year which generated a pro-forma gross profit of $16.6m (2004: $14.7m) for the year on a pro-forma gross profit margin of 53% (2004: 67%).

In addition, growth in our poker business has led to a total number of active players at the end of the year of 123,006 (2004:71,466). Total pro-forma revenues for the division were $73.8m (2004: $43.3m) for the year which generated a pro-forma gross profit of $35.3m (2004: $24.3m) for the year on a pro-forma gross profit margin of 48% (2004: 56%).

We have seen growth across Key Performance Indicators (KPI's) at our Club Dice casino suite and our Noble Poker brand. Both of these platforms were acquired in August 2005, with the aim of reducing our reliance on our two technology providers at the time and to establish our move into licensed gaming, where we own and operate our own gaming licence.

This growth has been achieved along with a relentless focus on cost containment. The average cost of acquiring a new real money player across the group during 2005 was $230 (2004: $220). The Board believes that the stability of this metric, along with the Company's ability to sustain a high level of player acquisition emphasises the deliverability of future incremental profits.

Club Dice Casino

Empire Online completed the acquisition of the Club Dice Casino suite in August 2005. The cost of the acquisition was $46.6m.

Club Dice has seen substantial growth in revenues and new sign ups since inception. At the end of 2005, the Club Dice platforms in aggregate had 26,790 active players. The net revenue per day averaged $79,946 during the fourth quarter (Q4) of 2005, compared to an average daily income of $65,334, an increase of 22.4% on the third quarter (Q3) of 2005.

Noble Poker

Empire Online completed the acquisition of the player database, brand and intellectual property of

CHIEF EXECUTIVE'S REVIEW

Noble Poker in August 2005. Noble Poker is the largest poker operator on the Playtech iPoker network, one of the fastest growing poker networks on the internet. The cost of the acquisition was $3.6m.

The Company has implemented strategies to help drive the rate of growth in new daily signups. This has been successfully executed with Noble Poker achieving an average of 138 new real money player signups per day during the fourth quarter of 2005 against 118 new real money player signups during the third quarter of 2005. The number of active players was 29,585 at the end of the fourth quarter of 2005, against 21,809 at the end of the third quarter.

Industry Consolidation/ Mergers and Acquisitions

For many years, the industry has talked of consolidation. Now, we are starting to see that talk become reality. Empire Online has always seen its role at the centre of this consolidation, believing that our core expertise in marketing is better leveraged across a larger platform. The Company has always expressed its intention to pursue industry-consolidating deals as and when they become available. The large number of online gaming sites and the increasingly higher barriers to profitable scale mean that consolidation will be seen by many operators as an attractive exit going forward.

I believe that the cash reserves available to the Company, along with the ability to use its equity give the Company considerable flexibility in pursuing merger and acquisition activity over the remainder of the year. Our focus is to extend the range of the products that we can offer our customers, including a sportsbook. We will assess areas of geographical acquisition in-line with regulatory and legislation trends.

Industry Regulation

Since the beginning of the year there has been renewed activity in the US Congress to bring forward bills that seek to either ban the use of financial instruments for online gaming or extend existing federal laws to prohibit US citizens from online gaming completely. Having established this Company in 1998, I am used to US regulatory threats as an ever present 'soundtrack' to the industry.

I cannot offer investors any certainty that prohibitive legislation will not pass Congress, but as CEO of Empire Online, it is my duty to take all actions necessary to position this Company so that it maximises its exposure to the upside from this industry and minimises the risks. Our Mergers and Acquisitions function will seek to exploit, from a position of strength, any opportunities that may arise from adverse legislation being passed.

Financial Review

Pro-forma net gaming revenue for the year ended 31 December 2005 was $105.2m (12 months to December 2004: $65.2m), earning a pro-forma gross margin of $51.9m (2004: $39.0m) at 49.3% of turnover (2004: 59.8%). The reduction in pro-forma gross margin has arisen from additional marketing costs incurred in order to stabilise the EmpirePoker platform following the separation from PartyPoker on 8 October 2005. Additionally, significant offline campaigns were undertaken throughout 2005, which initially yield a lower gross margin than the Company's main online marketing activities.

CHIEF EXECUTIVE'S REVIEW

Pro-forma profit before tax was $50.1m (2004: $37.7m), before amortisation and non recurring costs of $4.5m (2004: nil).

Pro-forma diluted earnings per share before amortisation and non-recurring costs were US19cents (2004: $350). Pro-forma diluted earnings per share after amortisation and non-recurring costs were US17cents (2004: $350).

During the year ended 31 December 2005, the Company generated pro-forma cash from operating activities of $77.2m (2004: $37.4m). As at 31 December 2005 the Company had $16.3m (2004: $21.8m) of cash and liquid resources on its balance sheet.

Trading Outlook

During the first 4 weeks of March in the new financial year the rate of new real money player growth was around 450 per day. The Company continues to believe that growth opportunities for all its platforms remain strong. In particular, the Company is pleased to note that more than 50% of new daily signups originate from outside of the USA. The cost of acquiring new customers continues to fall on a quarter by quarter basis.

On the current rate of growth, the Company reiterates its confidence in achieving an EBITDA of $37m for the current year.

Noam Lanir
Chief Executive

3 April 2006

BOARD OF DIRECTORS

Lord Leonard Steinberg (age 69),
Non-Executive Chairman
Lord Steinberg joined the Group as Non-Executive Chairman in May 2005. He single-handedly started Stanley Leisure from a one-shop operation in the mid-1950s. In 1997 and 1998 he received awards for North West Business Person of the Year. In July 1999 he was awarded an Honorary Doctorate by the University of Salford. He also sits on many charitable committees. With so many years experience in the gaming industry he is considered by many to be a leading authority on gaming and related matters. He was awarded a Peerage on 1 May 2004 and was introduced into the House of Lords on 13 September 2004.

Noam Lanir (age 39)
Founder and Chief Executive Officer
Noam Lanir founded Empire Online in July 1998, establishing and developing its marketing techniques and information systems. He currently oversees the company's marketing strategy as well as the development of its proprietary systems. Noam's experience in the online gaming sector has allowed him to develop a broad range of contacts and business relationships with online gaming providers and within the international online advertising market generally. Prior to his involvement in internet-based businesses Noam was involved in several Israel-based companies, primarily in the leisure and entertainment industries.

Andrew Rae Burns (age 42)
Chief Financial Officer
Andrew joined the Group in May 2005 as a Non-Executive Director. On 1 September 2005 he was appointed as the Group's Chief Financial Officer and Chief Operating Officer. Prior to that he was Finance Director of Luminar Plc. He qualified as a chartered accountant with Price Waterhouse (London) in 1989 and then he moved to the Rank Group in 1990 where he later became Finance and Commercial Director for Rank Video Services Europe. Andrew is also a Non-Executive Director of Inflexion Plc. Andrew is also the Company Secretary.

Richard Barry Rosenberg (age 50)
Non-Executive Director
Richard joined the Group in December 2004. He qualified as a chartered accountant in 1980 and in 1988 co-founded the accountancy practice Sedley Richard Laurence Voulters. Richard has considerable experience advising clients in the leisure and entertainment industries. Richard is a Director of a large number of companies operating in a variety of businesses.

Yossef Pereg (age 38)
(resigned on 1 September 2005)

3 April 2006

DIRECTORS' REPORT

The Directors submit their annual report and audited financial statements of the Group for the year ended on 31 December 2005.

Principal activities

The principal activity of the Company is the provision of marketing services to the online gaming industry.

Results and dividends

The results of the Group for the year ended on 31 December 2005 are set out on page 18 and show a profit after tax for the year of $41m (2004: $26m). The Directors recommend a final dividend of US6.8cents per share.

Review of the business and future development

The Group offers worldwide marketing services to the online gaming industry.

In the Chief Executive's Review, a more detailed review of the business and future developments is given.

Directors and their interests

The Directors holding office during the year:

Lord Leonard Steinberg	Non-Executive Director
Noam Lanir	Executive Director
Andrew Rae Burns	Executive Director
Richard Barry Rosenberg	Non-Executive Director
Yossef Pereg	resigned on 1 September 2005

The Directors will retire by rotation at this General Meeting, and being eligible, will seek re-election. The interests of the Directors and their related companies in the shares of the Company and options for such shares are as shown on pages 10 to 11. Details of Directors' remuneration and service contracts appear on page 10.

Share Capital

During the year an issue of new ordinary share capital took place. Details can be found in Note 14.

The new authorised share capital is 1,000,000,000 ordinary shares with no par value.

Flotation

On 15 June 2005, the Group's shares were successfully admitted to trading on AIM. The Placing comprised a total of 70,555,556 shares at £1.75 ($3.16) per Ordinary Share, representing 24.1 per cent of the newly issued share capital of the company. Following admission the number of Ordinary shares in issue totalled 292,777,772.

- Based on the Placing Price, the market capitalisation of the Group on commencement of dealings in the Ordinary Shares was £512m ($925m).
- Gross proceeds of the Placing were approximately £123m ($222m).

Related party transactions

Details of transactions with related parties during the year are disclosed in Note 17.

Corporate Governance

The Board's statement on Corporate Governance is on pages 13 to 15 together with details of the Group's board committees.

DIRECTORS' REPORT

Substantial Shareholdings

As at 3 April 2006 the following interests in 3 per cent or more of the Company's existing ordinary issued share capital had been reported:

	Number of Ordinary Shares	% of issued ordinary share capital
Groverton Management Ltd	62,971,837	21.50
Awen International Corporation	57,289,025	19.57
Sidmore Holdings Ltd	43,737,796	14.94
Glisson Incorporated	18,277,803	6.24
Strong Trading Corporation	12,221,705	4.17

- Save as disclosed in this report and in the remuneration report, the Company is not aware of any person who is interested directly or indirectly in 3 per cent or more of the issued share capital of the Company or could directly or indirectly, jointly or severally, exercise control over the Company.

- No Director has any interest in any transactions which are or were unusual in their nature or conditions or which are or were significant to the business of the Group and which were effected by any member of the Group in the current or immediately preceding financial year or which were effected during an earlier financial year and which remain in any respect outstanding or unperformed.

Change of name

On 5 May 2005, the Company changed its name from Clevedon Services Limited to Empire Online Limited.

Acquisitions, disposals, significant financing transactions and investments during the year

During the year the Group acquired the brands of Club Dice and Noble Poker and certain assets from Tradal Ltd. Details of these transactions can be found in Note 19.

Litigation

During 2005 the Group initiated legal action against PartyGaming Plc, due to a dispute that had a material negative impact on the Group's revenue.

The litigation proceedings came to an end in February 2006 following a settlement, the outcome of which left the Group satisfied. Details of the litigation are set out in Note 22.

Post balance sheet events

During February 2006 certain business assets were sold to PartyGaming Plc for a total consideration of $250m. Details of this can be found in Note 21.

Annual General Meeting

The Group's Annual General Meeting will be held on 18 July 2006. The Notice for the meeting is on pages 41 to 42.

DIRECTORS' REPORT

Directors' responsibilities in relation to the accounts

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and of the profit or loss of the group for that period. In preparing these 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the BVI International Business Companies Act 1984 (as amended). 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the British Virgin Islands governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors Appointment

BDO Stoy Hayward LLP stepped down as auditors due to a conflict of interest following the litigation between the Group and PartyGaming Plc and Grant Thornton were appointed in their place. A resolution to re-appoint Grant Thornton UK LLP as auditors will be put to the members at the Annual General Meeting.

Disclosure of information to the auditors

The Directors are aware that all necessary and relevant information was made available to the Group's auditors and that there is no relevant audit information of which the Group's auditors are unaware. The Directors have taken all necessary steps to keep up to date with all the relevant audit information.

Corporate Governance

Empire Online's corporate governance approach is set out in the Group's Corporate Governance statement on pages 13 to 15.

3 April 2006

REMUNERATION REPORT

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

1. Directors' Emoluments

1.1 Each of the Executive Directors has a service contract with the Company.

Director	Notes	Date of agreement	Salary/Fees $000	Benefits $000	Total Emoluments 2005 $000
Noam Lanir	a	10/06/05	364	—	364
Andrew Rae Burns	a	10/06/05	319	—	319
Lord Leonard Steinberg		10/06/05	197	—	197
Richard Barry Rosenberg		10/06/05	39	—	39
Yossef Pereg	b	10/06/05	120	—	120

The dates are presented in day month year format.

Notes:
a) Service contract terminable on either party to the agreement giving to the other 12 months' notice;
b) Yossef Pereg resigned on 1 September 2005.

2. Directors' Interests

2.1 Interests of Directors in ordinary shares

		As at 31.12.2005		As at 31.12.2004	
	Notes	Number of Ordinary Shares	Percentage of ordinary issued share capital	Number of Ordinary Shares	Percentage of ordinary issued share capital
Noam Lanir	a	62,971,837	21.5	30,380	28.2
Yossef Pereg	b	7,087,142	2.4	3,430	3.2

Notes:
a) Noam Lanir is interested in his Ordinary Shares by virtue of the fact that he owns directly or indirectly all of the issued share capital of Groverton Management Limited.
b) Yossef Pereg is interested in his Ordinary Shares by virtue of the fact that he owns all of the issued share capital of Mainstar International Ltd. Yossef Pereg resigned on 1 September 2005.

REMUNERATION REPORT

2.2 Interests of Directors in share options

	No of options at 31 December 2005	Date of grant	Exercise price £	Exercise price $	Period of option
Andrew Rae Burns	600,000	7/12/05	0.71	1.22	7/12/05–7/12/15
Lord Leonard Steinberg	114,285	8/06/05	1.75	3.05	15/06/05–15/06/10
Lord Leonard Steinberg	200,000	7/12/05	0.71	1.22	7/12/05–7/12/15
Richard Barry Rosenberg	75,000	7/12/05	0.71	1.22	7/12/05–7/12/15

The dates are presented in day month year format.

No options were exercised during 2005.

Share Option Scheme

- The Company's remuneration committee (the "Committee") is responsible for administering the Share Option Scheme. Options to acquire Shares in the Company may be granted under the Share Option Scheme to any employee or director of the Company or member of the Group.

- The option exercise price per Ordinary Share is determined by the Committee but will be no less than market value of the Ordinary Shares on the dealing day immediately preceding the date of grant. The options are not subject to any performance criteria.

- An option is normally exercisable in three equal tranches, on the first, second and third anniversary of the grant.

- The Share Option Scheme will terminate ten years after it is adopted by the Company, or earlier in certain circumstances.

Remuneration Policy

The Group's policy has been designed to ensure that the Group has the ability to attract, retain and motivate Executive Directors and key management personnel to ensure the success of the organisation.

The following key principles guide its policy:

- the policy for the remuneration of executive directors will be determined and regularly reviewed independently of executive management and will set the tone for the remuneration of other senior executives

- the remuneration structure will support and reflect Empire Online's stated purpose to maximize long-term shareholder value

- the remuneration structure will reflect a just system of rewards for the participants

- the overall quantum of all potential remuneration components will be determined by the exercise of informed judgement of the independent remuneration committee, taking into account the success of Empire Online and the competitive global market

REMUNERATION REPORT

- the majority of the remuneration will be linked to the achievement of demanding performance targets that are independently set and reflect the creation of long-term shareholder value

- a significant personal shareholding will be developed in order to align executive and shareholder interests

- the assessment of performance will be quantitative and qualitative and will include exercise of informed judgement by the remuneration committee within a framework that takes account of sector characteristics and is approved by shareholders

- the committee will be proactive in obtaining an understanding of shareholder preferences

- the remuneration policy and practices will be as transparent as possible, both for participants and shareholders

- the wider scene, including pay and employment conditions elsewhere in the Group, will be taken into account, especially when determining annual salary increases.

3 April 2006

CORPORATE GOVERNANCE

Introduction

The Company recognises the importance of the principles of good corporate governance and the Board is pleased to report its commitment to such high standards throughout the year. As an AIM listed company Empire Online 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.

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 two Executive and two 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 Group's business and implementing Group strategy.

A formal schedule of matters is reserved for consideration by the Board, which meets approximately six 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 the Group, 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 and Remuneration Committees. The minutes of each Committee are circulated to and reviewed by the Board.

Audit Committee

The Audit Committee comprises of two Non Executive Directors and is chaired by the senior independent Non Executive Director. Andrew Burns resigned as Chairman of the Audit Committee on 1 September 2005 when he was appointed Chief Financial Officer of the Company. Richard Rosenberg was appointed as Chairman of the Audit Committee on 1 September 2005. All members of the Committee are appointed by the Board and are Non-Executive Directors.

The Audit Committee met once during 2005 following the Company's listing on AIM on 15 June 2005. The Committee intends to meet three times a year in future. At least once a year the Committee meets with representatives of the external auditors of the Company without any Executive Directors being present, except by

CORPORATE GOVERNANCE

invitation of the Committee. The Company's Chairman, the Chief Executive Officer and the Chief Financial Officer have the right to attend and speak at meetings, with the exception of any meeting with the external auditors as referred to above.

The duties of the Committee include monitoring the auditor's performance and reviewing accounting policies and financial reporting procedures. The Committee prepares a summary of its work, which is included each year in the Company's Annual Report.

Remuneration Committee

The Remuneration Committee comprises of two Non-Executive Directors and is chaired by Richard Rosenberg. The Committee met once in 2005 following the Company's listing on AIM on 15 June 2005. In future, the Committee will meet whenever necessary during the year, and not less than twice a year.

The Remuneration Committee considers the terms of employment and overall remuneration of the Executive Directors and key members of executive management regarding share options, salaries, incentive payments and performance related pay. The remuneration of Non-Executive Directors is determined by the Board.

Nomination Committee

The Company intends to form a nomination committee in 2006 that will comprise of two Non-Executive Directors and will be chaired by Lord Steinberg. The Nomination Committee intends to meet once per year.
The Committee will be responsible for reviewing the size, structure and composition of the Board, succession planning and identifying and nominating candidates for all senior management and Board positions.

Evaluation

The Board is committed to an ongoing evaluation process of itself and its Committees to assess their performance and identify areas in which their effectiveness, policies and processes might be enhanced. The performance of individual Directors has been considered by the Chairman and Chief Executive in discussion with the other Non-Executive Director. The Non-Executive Director considered the performance of the Chairman, taking into account the views of the Executive Directors.

Communication with Investors

The Directors are available to meet with shareholders throughout the year. In particular the Executive Directors prepare a general presentation for analysts and institutional shareholders following the interim and preliminary announcements. Both the Chairman and the Senior Independent Non-Executive Director Richard Rosenberg are available for meetings with shareholders throughout the year. The Board endeavours to answer all queries raised by shareholders promptly.

Shareholders are encouraged to participate in the Annual General Meeting at which the Chairman will present the key highlights of the Group's performance. The Board will be available at the Annual General Meeting to answer questions from shareholders.

CORPORATE GOVERNANCE

Internal Control

The Board is responsible for ensuring that the Group has in place a system of internal control and for reviewing its effectiveness. In this context, control is defined as the policies and processes established to ensure that business objectives are achieved cost effectively, assets and shareholder value safeguarded and that laws and regulations are complied with. Controls can provide reasonable but not absolute assurance that risks are identified and adequately managed to achieve business objectives and to minimise material errors, frauds and losses or breaches of laws and regulations.

The Company operates a sound system of internal control, which is designed to ensure that the risk of misstatement or loss is kept to a minimum.

Given the Company's size and the nature of its business, the Board does not consider that it is necessary to have an internal audit function. An internal audit function will be established as and when the Group is of an appropriate size.

Independence of Auditor

The Board will undertake a formal assessment of the auditor's independence each year, which will include:

- a review of Non-audit related services provided to the Company and related fees;
- discussion with the auditor of a written report detailing all relationships with the Company and any other parties which could affect independence or the perception of independence;
- a review of the auditor's own procedures for ensuring independence of the audit firm and partners and staff involved in the audit, including the rotation of the audit partner;
- obtaining written confirmation from the auditors that they are independent; and
- a review of fees paid to the auditor in respect of audit and non-audit services.

3 April 2006

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF EMPIRE ONLINE LIMITED

We have audited the consolidated financial statements of Empire Online Limited for the year ended 31 December 2005 which comprise the Consolidated Income Statement, Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and notes 1 to 23. The consolidated financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with the BVI International Business Companies Act 1984 (as amended). Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the consolidated financial statements in accordance with British Virgin Islands law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Directors' Report.

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and whether the consolidated financial statements have been properly prepared in accordance with the BVI International Business Companies Act 1984 (as amended) and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the consolidated financial statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited consolidated financial statements. This other information comprises only the Chairman's Statement, the Chief Executive's Review, the Operating and Financial Review, Board of Directors, the Directors' Report, the Remuneration Report, the Corporate Governance Statement and the Pro-Forma Financial Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF EMPIRE ONLINE LIMITED

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated 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 consolidated 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 consolidated financial statements.

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended; and

- the consolidated financial statements have been properly prepared in accordance with the BVI International Business Companies Act 1984 (as amended) and Article 4 of the IAS Regulation.

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
Slough

Dated 3 April 2006

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	Pre-amortisation and non recurring items 2005 $000	Amortisation and non recurring items 2005 $000	2005 $000	2004 $000
Net gaming revenue	3	97,389	—	**97,389**	48,319
Cost of sales		(49,644)	—	**(49,644)**	(20,716)
Gross profit	3	47,745	—	**47,745**	27,603
Administrative expenses	4	(3,171)	(4,581)	**(7,752)**	(1,643)
Operating profit	5	44,574	(4,581)	**39,993**	25,960
Finance expenditure	6	(55)	—	**(55)**	(43)
Finance income	6	1,246	—	**1,246**	309
Profit before taxation		45,765	(4,581)	**41,184**	26,226
Taxation	7	(10)	—	**(10)**	—
Profit after taxation for the year		45,755	(4,581)	**41,174**	26,226
Earnings per share					
Basic earnings per share ($)	8	$0.18		**$0.16**	$ 243.85
Diluted earnings per share ($)	8	$0.17		**$0.16**	$ 243.85
Dividends					
Proposed final dividend per share ($)				**$0.068**	—
Proposed final dividend ($000)				**20,000**	—
Dividends paid during the year per share ($) (since IPO)				**$0.034**	—
Dividends paid during the year ($000)	9			**49,043**	—

The notes on pages 22 to 36 form part of these financial statements.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

	Note	2005 $000	2004 $000
Assets			
Non-current assets			
Plant and equipment	10	**119**	—
Intangible assets	11	**224,628**	794
		224,747	794
Current assets			
Trade and other receivables	12	**11,431**	18,331
Cash and cash equivalents	13	**16,297**	14,830
		27,728	33,161
Total assets		**252,475**	33,955
Equity			
Share capital	14	**—**	1
Share premium	14	**209,807**	604
Share option reserve		**277**	—
Retained earnings		**22,297**	30,166
Total equity		**232,381**	30,771
Liabilities			
Current liabilities			
Trade and other payables	15	**20,088**	3,184
Current tax payable	16	**6**	—
Total liabilities		**20,094**	3,184
Total equity and liabilities		**252,475**	33,955

These Financial Statements were approved by the Board of Directors on 3 April 2006.

Director

The notes on pages 22 to 36 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	Share capital $000	Share premium $000	Share Option reserve $000	Retained earnings $000	Total $000
Balance at 1 January 2004		1	—	—	3,940	3,941
Share capital issued	14	—	604	—	—	604
Net profit for the year		—	—	—	26,226	26,226
Balance at 31 December 2004		1	604	—	30,166	30,771
Net profit for the year		—	—	—	41,174	41,174
Issue of new share capital	14	(1)	222,601	—	—	222,600
IPO expenses		—	(13,398)	—	—	(13,398)
Share option reserve		—	—	277	—	277
Dividends paid	9	—	—	—	(49,043)	(49,043)
Balance at 31 December 2005		—	209,807	277	22,297	232,381

The share capital issued in 2004 was called up and paid in the year ended 31 December 2005 (note 14).

The notes on pages 22 to 36 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 $000	2004 $000
Cash flows from operating activities			
Profit before taxation		**41,184**	26,226
Adjustments for			
Depreciation and amortisation		**2,898**	173
Interest income		**(1,159)**	(309)
Interest expense		**55**	—
Equity settled share options		**277**	—
		43,255	26,090
Changes in working capital			
Decrease in trade and other receivables		**6,900**	881
Increase/ (decrease) in trade and other payables		**16,904**	(2,109)
Taxation paid		**(4)**	—
		23,800	(1,228)
Net cash generated from operating activities		**67,055**	24,862
Cash flows from investing activities			
Purchase of plant and equipment	10	**(131)**	—
Purchase of intangible assets	11	**(5,528)**	(967)
Acquisition of businesses	11	**(221,192)**	—
Interest income received		**1,159**	309
Net cash used in investing activities		**(225,692)**	(658)
Cash flows from financing activities			
Loans to shareholders		**—**	(11,139)
Dividends paid	9	**(49,043)**	—
Proceeds from issue of shares	14	**209,202**	—
Interest paid		**(55)**	—
Net cash from/(used in) financing activities		**160,104**	(11,139)
Net increase in cash and cash equivalents		**1,467**	13,065
Cash and cash equivalents at the beginning of the year	13	**14,830**	1,765
Cash and cash equivalents at the end of the year	13	**16,297**	14,830

The notes on pages 22 to 36 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Incorporation, principal activity and status of the Company

1.1 The Company was incorporated as an international business company and registered in the British Virgin Islands (BVI) on 2 January 2002 under IBC Number 475668 with the name Clevedon Services Limited. The liability of the members of the Company is limited. The Company changed its name to Empire Online Limited on 5 May 2005.

1.2 The principal activity of the Group is the provision of marketing services to the online gaming industry.

1.3 The principal legislation under which the Company operates is the BVI Act.

1.4 The registered office and head office of the Company is located at Trident Chambers, PO Box 146, Road Town, Tortola, British Virgin Islands.

2. Accounting Policies

The significant accounting policies applied in the preparation of the financial statements are as follows:

(a) Basis of preparation

The audited financial statements of Empire Online have been prepared on the historical cost basis and in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The significant accounting policies applied in the Financial Statements of the Group in prior years have been applied consistently in these financial statements. The Group adopted for the first time IFRS 2 Share Based Payments and IFRS 3 Business Combinations in 2005. The adoption of the above had no impact on prior years.

The financial information is presented in US dollars because that is the currency in which the Group primarily operates.

(b) Basis of Consolidation

The consolidated results incorporate the results of Empire Online Limited and all of its subsidiary undertakings for the year ended 31 December 2005 using the acquisition method of accounting as required. Profits or losses on intra group transactions are eliminated on consolidation. The results for the subsidiary undertakings acquired during the year have been included from the date of acquisition. On acquisition of a subsidiary all of the subsidiary's assets and liabilities which exist at the date of acquisition are recorded at fair value. The excess of the fair value of the consideration paid over the fair value of the identifiable net assets acquired, is capitalised net of any provision for impairment.

(c) Net Gaming Revenue recognition

Revenue is recognised in the accounting period in which the transaction occurs.

Net gaming revenue comprises commissions earned from clients, net of rebates and chargebacks deducted at source. Commissions are calculated based on a percentage of the net amount earned by the Group's clients on their internet websites from players introduced to the websites by the Group.

(d) Foreign currency

Monetary assets and liabilities denominated in non-US dollar currencies are translated into US dollar equivalents using year-end spot foreign exchange rates. Non-monetary assets and liabilities are translated using exchange rates prevailing at the dates of the transactions. Exchange rate differences on foreign currency transactions are included in net finance income. The results and financial position of all Group entities that have a functional currency different from US dollars are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet; and

(ii) income and expenses for each income statement are translated at an average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). Exchange differences arising are taken to translation reserve, a component of equity. The exchange differences arising from retranslation of the investments in subsidiaries are taken directly to translation reserve. All other exchange differences are dealt with through the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting Policies continued

(e) Taxation

Provision is made for corporation tax on the taxable profits for the year at the appropriate rate in force.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax liabilities are provided in full with no discounting.

(f) Goodwill

Goodwill being the excess of the cost of an acquisition over the fair values attributed to the net assets at acquisition is capitalised.

Goodwill is not being amortised through the profit and loss account; however, it is subject to annual impairment reviews. Impairment of the goodwill is evaluated by comparing the present value of the future expected cash flows, (the "value-in-use") to the carrying value of the underlying net assets and goodwill. If the net assets and goodwill were to exceed the value-in-use, an impairment would be deemed to have occurred and the resulting write down in the goodwill would be charged to the profit and loss account immediately.

(g) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation. Carrying amounts are reviewed at each balance sheet date for impairment.

Depreciation is calculated using the straight-line method, at annual rates estimated to write off the cost of the assets less their estimated residual values over their expected useful lives. The annual depreciation rate is as follows:

Computer hardware	–	33⅓%

(h) Intangible assets

Intangible assets comprise website design costs, domains, player data and computer software and are stated at historic cost less accumulated amortisation. Carrying amounts are reviewed at each balance sheet date for indications of impairment. Costs that are directly attributable to the development of websites are recognised as intangible assets provided that the intangible asset will generate probable benefits and income streams through external use in line with SIC 32 "Intangible assets website costs". Content development and operating costs are expensed as incurred.

Amortisation is calculated using the straight-line method, at annual rates estimated to write off the cost of the assets over their expected useful lives. The annual amortisation rates are as follows:

Website design costs	–	50%
Domains	–	10%–20%
Player data	–	100%
Computer software	–	33⅓%

(i) Equity

Equity issued by the Company is recorded as the proceeds received, net of direct issue costs.
Equity purchased by the Company is recorded as the consideration paid, including directly associated assets and is deducted from total equity as treasury shares until they are sold or cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in total equity.

(j) Leases

All leases are classified as operating leases and rentals payable are charged to income on a straight-line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting Policies continued

(k) Financial instruments

The carrying amounts of cash and cash equivalents, trade receivables, other accounts receivable, trade payables, customer deposits and other accounts payable approximate to their fair value.

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

Trade receivables

Trade receivables are recognised and carried at the original transaction value and principally comprise amounts due from credit card companies and from e-payment companies. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents

Cash comprises cash in hand and balances with banks. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash. They include unrestricted short-term bank deposits originally purchased with maturities of three months or less.

Trade and other payables

Trade and other payables are recognised and carried at the original transaction value.

(l) Segment information

A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

(m) Research and Development

Any expenditure incurred on development activities, including the Group's software development, is capitalised only where the expenditure will lead to new or substantially improved products or processes, the products or processes are technically and commercially feasible and the Group has sufficient resources to complete the development. All other development expenditure is expensed as incurred.

(n) Share Options

IFRS 2 "Share-Based Payments" requires the recognition of equity settled share-based payments at fair value at the date of grant and the recognition of liabilities for cash settled share based payments at the current fair value at each balance sheet date.

The Group issues equity-settled share based payments to certain employees and advisors. The fair value of share-based payments to employees at grant date is measured using the Trinomial pricing model. The fair value of share-based payments to advisors is measured directly at the fair value of the services provided.

The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. The corresponding credit is taken to the share option reserve.

The Group adopted IFRS 2 for the first time in 2005. Prior to 2005 there were no share-based payments.

(o) Business Combinations

The acquisition of subsidiaries is accounted for using the purchase or acquisition method of accounting. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting Policies continued

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

(p) Legal and other disputes

Provision is made where a reliable estimate can be made of the likely outcome of legal and other disputes against the Group. In addition, provision is made for legal and other expenses arising from claims received or other disputes. No provision is made for other possible claims or where an obligation exists but it is not possible to make a reliable estimate. Costs associated with claims made by the Group are charged to the Income Statement as they are incurred.

(q) Critical accounting judgements and key sources of estimation uncertainty

Impairment of goodwill and Intangible Assets

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. The estimates used to perform the value in use calculation are set out in note 11.

An estimation of the value of separately identifiable net assets, such as domain names and player data, acquired as part of the Group's business combinations during the year has been made by management. The estimated values are disclosed in note 19. These estimates will be reviewed in 2006.

3. Segment Information

Business segments

The Group's performance as it is analysed by its two business segments is given below:

Revenue by business segment

	2005 $000	2004 $000
Casino		
Net gaming revenue	**23,635**	4,959
Segmental result	**12,719**	3,121
Poker		
Net gaming revenue	**73,754**	43,360
Segmental result	**38,274**	25,913
Consolidated		
Net gaming revenue	**97,389**	48,319
Segmental results	**50,993**	29,034
Central costs	**(3,248)**	(1,431)
Gross profit	**47,745**	27,603
Administrative and other operating expenses	**(7,752)**	(1,643)
Operating profit	**39,993**	25,960

It is not possible to provide a split of assets by segment due to the nature of the Group's business.

NOTES TO THE FINANCIAL STATEMENTS

3. Segment Information continued

Geographical segments

The Group's performance can also be reviewed by considering the geographical markets and geographical locations within which the Group operates. Geographical information is based on the geographic location of gaming operators, not players. This information is outlined below:

Revenue by geographical market

	2005 $000	2004 $000
Europe	**84,126**	48,319
Rest of World	**13,263**	—
Net gaming revenue	**97,389**	48,319

Segment result by geographical market

	2005 $000	2004 $000
Europe	**46,931**	29,034
Rest of World	**4,062**	—
Segment results	**50,993**	29,034
Central costs	**(3,248)**	(1,431)
Gross Profit	**47,745**	27,603
Administrative and other operating expenses	**(7,752)**	(1,643)
Operating profit	**39,993**	25,960

4. Amortisation and non recurring items

Amortisation and non-recurring items comprise:

	2005 $000	2004 $000
Amortisation of intangible assets	**2,266**	—
Amortisation of share options	**277**	—
IPO related expenses	**587**	—
Non-recurring expenses	**1,451**	—
	4,581	—

NOTES TO THE FINANCIAL STATEMENTS

5. Operating Profit

	2005 $000	2004 $000
Operating profit is stated after charging:		
Administration services	**936**	1,460
Depreciation	**12**	260
Amortisation	**2,886**	173
Operating leases	**18**	—
Auditor's remuneration	**90**	37
Auditor's remuneration is analysed as:		
Audit fees	**90**	37

At 31 December 2005 the Group employed 40 staff (31 December 2004: 23).

6. Finance Income and Expenditure

	2005 $000	2004 $000
Finance Income		
Interest income	**564**	53
Exchange income	**87**	—
Interest received on shareholder balances	**595**	256
	1,246	309
Finance Expenditure		
Sundry finance expenses	**55**	43
	55	43

NOTES TO THE FINANCIAL STATEMENTS

7. Taxation

	2005 $000	2004 $000
Corporation tax — current year	10	—
	10	—
The tax charge for the year can be reconciled to the accounting profit as follows:		
Profit before tax	41,184	26,226
Tax effect of domestic corporation tax	—	—
Tax effect of share of subsidiaries	10	—
Tax charge for the year	10	—

The Company is an international business company based in the British Virgin Islands (BVI) and, under its laws, is not subject to corporation tax. Corporation tax is calculated with reference to the profit of the Company's subsidiaries.

8. Earnings per share

Basic earnings per share has been calculated by dividing the net profit attributable to ordinary shareholders (profit for the year) by the weighted average number of shares in issue during the relevant financial year.

Diluted earnings per share is calculated after taking into consideration the potentially dilutive shares in existence as at the year ended 31 December 2005. For the year ended 31 December 2004 there were no potentially dilutive shares.

	Pre-amortisation and non-recurring items 2005	Post amortisation and non-recurring items 2005	2004
Net profit attributable to ordinary shareholders ($000)	45,755	41,174	26,226
Weighted average number of ordinary shares in issue	260,689,492	260,689,492	107,550
Basic earnings per share ($)	0.18	0.16	243.85
Weighted average number of ordinary shares including the effect of potentially dilutive shares	261,862,570	261,862,570	107,550
Diluted earnings per share ($)	0.17	0.16	243.85
Number of Shares			
Weighted average number of ordinary shares in issue	260,689,492	260,689,492	107,550
Effect of potentially dilutive ordinary shares:			
Share options	1,173,078	1,173,078	—
Weighted average number of ordinary shares including the effect of potentially dilutive shares	261,862,570	261,862,570	107,550

NOTES TO THE FINANCIAL STATEMENTS

9. Dividends

	2005 $000	2004 $000
Dividends paid	**49,043**	—

Dividends paid during the year were $39,043,000 in June 2005 and $10,000,000 in September 2005.

10. Plant and equipment

	Computer Hardware $000	**Total $000**
Cost		
As at 1 January 2004	—	—
Additions	—	—
As at 1 January 2005	—	—
Additions	131	131
As at 31 December 2005	131	131
Depreciation		
As at 1 January 2004	—	—
Charge for the year	—	—
As at 1 January 2005	—	—
Charge for the year	(12)	(12)
As at 31 December 2005	(12)	(12)
Net book value		
As at 31 December 2005	119	119
As at 31 December 2004	—	—

NOTES TO THE FINANCIAL STATEMENTS

11. Intangible assets — *details of acquisitions in the year are set out in note 19*

	Goodwill $000	Website Design Costs $000	Domains $000	Player data $000	Computer Software $000	Total $000
Cost						
As at 1 January 2004	—	—	—	—	—	—
Additions	—	966	—	—	1	967
As at 1 January 2005	—	966	—	—	1	967
Additions	221,192	405	575	4,486	62	226,720
As at 31 December 2005	**221,192**	**1,371**	**575**	**4,486**	**63**	**227,687**
Amortisation						
As at 1 January 2004	—	—	—	—	—	—
Charge for the year	—	(173)	—	—	—	(173)
As at 1 January 2005	—	(173)	—	—	—	(173)
Charge for the year	—	(571)	(130)	(2,171)	(14)	(2,886)
As at 31 December 2005	—	(744)	(130)	(2,171)	(14)	(3,059)
Net book value						
As at 31 December 2005	**221,192**	**627**	**445**	**2,315**	**49**	**224,628**
As at 31 December 2004	**—**	**793**	**—**	**—**	**1**	**794**

Goodwill acquired in a business combination is allocated to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2005 $000	2004 $000
Club Dice	**44,074**	—
Noble Poker	**3,577**	—
Tradal Ltd assets	**173,541**	—
	221,192	—

The Group tests goodwill for impairment annually or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations.

Management estimates key assumptions for the value in use calculations and growth rates based on past experience and expectations of future changes in the market. The discount rates are based on company specific weighted average cost of capital percentages.

A period of ten years has been used for the value in use calculations, as management is of the opinion that it reflects the expected longevity of the goodwill acquired.

NOTES TO THE FINANCIAL STATEMENTS

12. Trade and other receivables

	2005 $000	2004 $000
Trade receivables	**11,360**	618
Loans due from shareholders	**—**	12,504
Amounts due from related parties	**—**	5,209
Other debtors and prepayments	**71**	—
	11,431	18,331

Details of transactions with shareholders are shown in note 17.

The carrying value of trade and other receivables approximates to their fair value.

The loans due from shareholders have attracted an interest charge of LIBOR + 1.5% throughout the year.

13. Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following at the balance sheet date:

	2005 $000	2004 $000
Short term deposits	**14,607**	12,495
Cash at bank	**1,690**	2,335
	16,297	14,830

NOTES TO THE FINANCIAL STATEMENTS

14. Shareholders' equity

Share capital comprises the following:

	$0 shares Number	$0.01 shares Number	Nominal value $000	Share premium $000
As at 1 January 2004	—	100,000	1	—
Issue of ordinary shares of US$0.01 each	—	7,550	—	604
As at 1 January 2005	—	107,550	1	604
15 June 2005 share capital issue	222,222,216	(107,550)	(1)	1
15 June 2005 IPO issue	70,555,556	—	—	209,202
31 December 2005	292,777,772	—	—	209,807

The issue on 15 June 2005 was in respect of the admission placing.

The Company has authorised share capital of 1,000,000,000 ordinary shares with no par value.

The Company has a share option scheme. The outstanding share options to acquire ordinary shares as at 31 December 2005 were as follows:

	Outstanding Share options	Date granted	Exercise price £	Exercise price $	Earliest exercise date	Expiry of exercise date
As at 1 January 2004	—					
Issued during 2004	—					
As at 1 January 2005	—					
Issued on 8 June 2005	114,285	08/06/05	1.75	3.05	15/06/05	15/06/10
Issued on 8 June 2005	705,555	08/06/05	1.90	3.27	15/06/05	15/06/10
Issued on 7 December 2005	12,170,000	07/12/05	0.71	1.22	07/12/06	07/12/15
Share options exercised	—					
Share options lapsed	—					
As at 31 December 2005	12,989,840					

The dates are presented in day month year format.

The fair value of options granted to employees during the year ended 31 December 2005 was determined using the Trinomial valuation model. The model takes into account a volatility rate of 122% and a risk free interest rate of 4.5% and it has been assumed the options have a remaining life of three years.

NOTES TO THE FINANCIAL STATEMENTS

15. Trade and other payables

Amounts falling due within one year

	2005 $000	2004 $000
Trade payables	**19,594**	3,184
Other payables and accrued expenses	**494**	—
	20,088	3,184

The Directors consider that the carrying value of trade and other payables approximates to their fair value.

16. Current tax payable

	2005 $000	2004 $000
Corporation tax payable	**6**	—

17. Related party transactions

	2005 $000	2004 $000
Amounts (owed to)/by shareholders	**(459)**	12,504
Amounts owed to Directors	**347**	—
Interest received on shareholder balances	**595**	256
Administration services provided by Tradal Ltd	**936**	1,460
Paid in respect of services*	**1,139**	523

* These payments were made in respect of members of key management either directly to them or to companies to which they are related.

Tradal Ltd is a related party by virtue of common ownership with Empire Online Limited.

NOTES TO THE FINANCIAL STATEMENTS

18. Commitments and contingencies

	2005 $000	2004 $000
Future minimum lease commitments under property operating leases:		
Less than one year	**48**	—
Other commitments:		
Software development commitment		
Less than one year	**22**	—
Total commitments falling due within one year	**70**	—

The amount paid in the year ended 31 December 2005 for property operating leases was $18k (year ended 31 December 2004: $nil).

19. Acquisitions

During the year the Group acquired the businesses of Club Dice and Noble Poker, and other assets from Tradal Ltd.

The consideration and the goodwill arising were:

	Club Dice Casinos $000	**Noble Poker $000**	**Tradal Ltd assets $000**	**Total $000**
Cash consideration	46,625	3,627	175,826	226,078
Analysed as:				
Domain names	150	50	200	400
Players data	2,401	—	2,085	4,486
Goodwill arising	44,074	3,577	173,541	221,192
	46,625	3,627	175,826	226,078
The gross profit of the acquired businesses since the date of acquisition is as follows:	3,152	910	7,848	11,910

Included in trade payables, an amount of $14m is still outstanding at 31 December 2005, which relates to the above acquisitions.

Provisional goodwill of $221m has been capitalised. The provisional fair value analysis has attributed a value of $nil in respect of brands and other separately identifiable assets, pending a detailed review in 2006.

The revenue and profit before tax of the Group had the acquisition from Tradal Ltd been made at the beginning of the year, would have been $105m and $45m respectively.

NOTES TO THE FINANCIAL STATEMENTS

20. Financial risk management objectives and policies

The Directors see the overall financial risk arising from exchange rate fluctuations to the Group as minimal since all receipts and the majority of payments are transacted in US dollars.

The Group's exposure to interest rate risk is limited to the interest bearing deposits in which the Group invests surplus funds. Downside interest rate risk is minimal as the Group has no borrowings. Management monitors liquidity to ensure that sufficient liquid resources are available to the Group.

The Group's credit risk is primarily attributable to receivables from payment service providers. Generally the Group's maximum credit exposure is the carrying amount of trade and other receivables shown on the Balance Sheet.

21. Post-balance sheet events

On 14 February 2006 certain trade assets were disposed for $250m which brought an end to the litigation against PartyGaming Plc.

The assets included in the disposal were certain domain names and the brand names "Empire Poker" and "Ace Club". These brands and domain names were used by Empire Online Ltd to direct online poker and casino players to PartyGaming's websites, creating net gaming revenue for the Group.

Activities related to PartyGaming have remained a source of revenue for Empire Online Ltd although revenues have declined materially following the launch by PartyGaming of a new operating platform on 8 October 2005 which moved PartyGaming's poker players to a different platform from that of PartyGaming's skins. This resulted in legal action being taken by the Group against PartyGaming.

In the year ended 31 December 2005, the gross profit before administrative expenses attributable to the assets sold was approximately $38.5m. In the quarter ended 31 December 2005 the assets contributed gross profit before administrative expenses of $5.0m. The balance sheet value of the net assets pursuant to the disposal was less than $0.1m as at 31 December 2005.

Segment Information in respect of assets disposed
Business Segment

Revenue by business segment	**2005 $000**	2004 $000
Poker	**71,708**	43,381
Casino	**1,689**	4,149
	73,397	47,530
Result by business segment		
Poker	**37,376**	25,496
Casino	**1,167**	2,680
Gross profit before common costs	**38,543**	28,176

NOTES TO THE FINANCIAL STATEMENTS

21. Post-balance sheet events continued

Geographical Segment

Revenue by geographical segment	**2005 $000**	2004 $000
Europe	**73,397**	47,530
Rest of World	**—**	—
	73,397	47,530
Result by geographical segment		
Europe	**38,543**	28,176
Rest of World	**—**	—
Gross profit before central costs	**38,543**	28,176

22. Litigation

The Group initiated legal action against PartyGaming Plc after revenues had declined materially following the launch by PartyGaming of a new operating platform on 8 October 2005 that moved PartyGaming poker players to a different platform from that of PartyGaming's skins. The proceedings came to an end after the two parties came to an agreement on 14 February 2006, which left Empire Online Ltd satisfied.

The agreement concerned the disposal of certain business assets (see note 21) which the Group believes crystallises the maximum shareholder value for shareholders whilst removing the uncertainty of litigation between Empire Online Ltd and PartyGaming Plc.

Other than this no member of the Group is or has been involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Group's financial position nor are the Directors aware of any such proceedings pending or threatened against any member of the Group.

23. Subsidiaries

As at 31 December 2005 the Company had the following wholly owned subsidiaries:

Name of Subsidiary	**Place of incorporation**	**Date of acquisition**	**Principal activity**
Poltroon Limited	Cyprus	7 April 2005	Administration services
Empire Online Limited	United Kingdom	13 October 2004	Dormant company
Empire Payments Ltd	St. Kitts	20 October 2005	Dormant company
Empire Online D.O.O	Serbia	1 August 2005	I.T. services
Sandhirst Ltd	Cyprus	4 November 2005	Dormant company

Any cash transactions between the subsidiaries and the Group during the year were eliminated on consolidation.

UNAUDITED PRO-FORMA FINANCIAL INFORMATION

General Information

The pro-forma financial information has been prepared so as to provide comparable information for the transitional year of 2005 during which certain assets were acquired by the Group from Tradal Ltd, a related company incorporated in St. Vincent and the Grenadines.

Tradal Ltd will continue to play an important role for the Group as some of the key members of staff are employed by this company. This company charges a service fee for the services provided by its staff members.

Balance Sheet

The aggregated balance sheet as at 31 December 2005 is the same as the Group Balance Sheet as Tradal Ltd's operations that related to the Group have, by the end of the year, been integrated into the group via the acquisition of Tradal Ltd's assets mentioned in note 19.

Basis of aggregation

The pro-forma results are an aggregation based on the results for the year ended 31 December 2005 incorporating the trading results of the acquired business from Tradal Ltd for the first five months of 2005. These results were aggregated so as to provide comparable information.

UNAUDITED PRO-FORMA INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Pre-amortisation and non-recurring items 2005 $000	Amortisation and non-recurring items 2005 $000	2005 $000	2004 $000
Net gaming revenue	105,181	—	105,181	65,186
Cost of sales	(53,244)	—	(53,244)	(26,192)
Gross profit	51,937	—	51,937	38,994
Administrative expenses	(3,249)	(4,581)	(7,830)	(1,827)
Operating profit	48,688	(4,581)	44,107	37,167
Net finance income	1,392	—	1,392	531
Profit before taxation	50,080	(4,581)	45,499	37,698
Taxation	(22)	—	(22)	(16)
Profit after taxation for the year	50,058	(4,581)	45,477	37,682
Earnings per share				
Basic earnings per share ($)	$0.19		$0.17	$350
Diluted earnings per share ($)	$0.19		$0.17	$350
Dividends				
Proposed dividend per share ($)			$0.068	—
Proposed dividend ($000)			20,000	—
Dividends paid during the year per share ($) (since IPO)			$0.034	—
Dividends paid during the year ($000)			49,043	—

UNAUDITED PRO-FORMA CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 $000	2004 $000
Cash flows from operating activities		
Profit before taxation	**45,499**	37,698
Adjustments for		
Depreciation and amortisation	**2,928**	317
Equity settled share options	**277**	—
Interest income	**(1,395)**	(625)
Interest expense	**90**	—
Non cash item: aggregation adjustments	**—**	(3,384)
	47,399	34,006
Changes in working capital		
Decrease in trade and other receivables	**14,039**	855
Increase in trade and other payables	**15,793**	2,386
Taxation (paid)/received	**(4)**	1
Decrease in trading investments	**—**	104
	29,828	3,346
Net cash generated from operating activities	**77,227**	37,352
Cash flows from investing activities		
Purchase of plant and equipment	**(131)**	(152)
Purchase of intangible assets	**(5,558)**	—
Acquisition of businesses	**(221,192)**	(1,037)
Elimination of Tradal Ltd assets and liabilities	**216**	—
Interest income received	**1,395**	627
Net cash used in investing activities	**(225,270)**	(562)
Cash flows from financing activities		
Loans to shareholders	**—**	(16,413)
Dividends paid	**(49,043)**	(5,004)
Proceeds from issue of shares	**209,203**	—
Decrease in Capital Account	**(18,010)**	—
Decrease in Treasury Shares	**445**	—
Interest paid	**(90)**	—
Net cash from/(used) in financing activities	**142,505**	(21,417)
Net (decrease)/ increase in cash and cash equivalents	**(5,538)**	15,373
Cash and cash equivalents at the beginning of the year	**21,835**	6,462
Cash and cash equivalents at the end of the year	**16,297**	21,835

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: 0208 639 2342

Website
www.ep.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.

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 it to Capita Registrars.

Change of Address
Shareholders can change their address by notifying Capita Registrars in writing at the above address.

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 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.

Please note that the Directors of the Company are not seeking to encourage shareholders to either buy or sell the Company's shares.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at 10 Snow Hill, London EC1A 2AL on 18 July 2006 at 10am for the purposes of the following:

Ordinary business
To consider and if thought fit, to pass the following resolutions which will be proposed as ordinary resolutions:

1. to receive and adopt the Report of Directors, the financial statements and the report of the auditors for the year ended 31 December 2005,
2. to receive and approve the Directors' remuneration report for the year ended 31 December 2005,
3. to authorise the Directors to determine the auditors' remuneration,
4. to re-appoint Lord Leonard Steinberg, who retires by rotation under the Company's articles of association as a director of the Company,
5. to re-appoint Noam Lanir, who retires by rotation under the Company's articles of association as a director of the Company,
6. to re-appoint Andrew Rae Burns, who retires by rotation under the Company's articles of association as a director of the Company,
7. to re-appoint Richard Barry Rosenberg, who retires by rotation under the Company's articles of association as a director of the Company,
8. to re-appoint Grant Thornton UK LLP as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which financial statements are laid before the Company,
9. that the final dividend recommended by the directors of 6.8US cents per ordinary share for the year ended 31 December 2005 be declared payable on 7 September 2006 to holders of ordinary shares registered at the close of business on 4 August 2006.
10. That for the purposes of article 5.1 of the Articles of Association of the Company:

    10.1 the Directors be and are generally and unconditionally authorised to allot up to a maximum aggregate amount of 87,833,331 new ordinary shares of no par value of the Company to such persons and at such times and on such terms as they think proper during the period expiring at the end of the Annual General Meeting of the Company in 2007 (unless previously revoked or varied by the Company in general meeting); and

    10.2 the Company be and is hereby authorised to make prior to the expiry of such period any offer or agreement which would or might require such ordinary shares in pursuance of any such offer or agreement notwithstanding the expiry of the authority given by this resolution;

    so that all previous authorities of the Directors pursuant to the said article 5.1 be and are hereby revoked.
11. That, pursuant to Rule 11.1 of the Empire Online Limited Discretionary Share Option Plan, adopted by the Company on 10 June 2005, as amended (the "Plan"), Rule 2 of the Plan be amended such that the percentage referred to in that Rule of "5%" is replaced by "10%" so that the amended Rule 2 reads as follows:

    "No Option shall be granted which at the Date of Grant would result in the aggregate number of Shares issued under and remaining issuable (or transferred or transferable from treasury) in respect of rights granted in the ten years following Admission under the Plan and any other share plans for employees and/or directors of the Group established by any Group Company, exceeding 10% of the Shares in issue on that Date of Grant."

Special business
As special business to consider and, if thought fit, pass the following resolutions which will be proposed as special resolutions:

12. That, subject to the passing of resolution 10 set out in the Notice convening this Meeting, the Directors be and are empowered in accordance with article 5.2 of the Articles of Association of the Company to allot new ordinary shares of no par value of the Company for cash, pursuant to the authority conferred on them to allot such shares by that resolution as if the pre-emption provisions contained in such article 5.2 did not apply to any such allotment, provided that the power conferred by this resolution shall be limited to:

NOTICE OF ANNUAL GENERAL MEETING

12.1 the allotment of ordinary shares in connection with an issue or offering in favour of holders of ordinary shares and any other persons entitled to participate in such issue or offering where the shares respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective number of ordinary shares held by or deemed to be held by them on the record date of such allotment, subject only 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 or requirements of any recognised regulatory body or stock exchange in any territory; and

12.2 the allotment (otherwise than pursuant to paragraph 12.1 above) of up to an aggregate amount of 14,638,888 of such ordinary shares;

and this power, unless renewed, shall expire at the end of the Annual General Meeting of the Company to be held in 2007 but shall extend to the making, before such expiry, of an offer or agreement which would or might require ordinary shares to be allotted after such expiry and the Directors may allot such shares in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

13. That, in accordance with its articles of association, the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the UK Companies Act 1985 (as amended)) on the AIM market of the London Stock Exchange of ordinary shares of no par value ("ordinary shares") of the Company provided that:

13.1 the maximum number of ordinary shares hereby authorised to be purchased is 29,277,777, representing 10 per cent of the issued ordinary share capital;

13.2 the authority hereby conferred (unless previously renewed or revoked) shall expire at the conclusion of the annual general meeting of the Company next following the meeting at which this resolution is passed; and

13.3 the Company may, under the authority hereby conferred and prior to the expiry of that authority, make a contract to purchase its own shares which will or may be executed wholly or partly after the expiry of that authority and may make a purchase of its own shares in pursuance of any such contract.

By order of the Board

Andrew Burns
Company Secretary
Trident Chambers
PO Box 146
Road Town
Tortola
British Virgin Islands
3 April 2006

Notes:

(i) A member entitled to attend and vote at the Meeting convened by the above Notice is entitled to appoint one or more proxies to attend and, on a poll, to vote in his place. A proxy need not be a member of the Company. Completion of the Form of Proxy will not prevent you from attending and voting in person.

(ii) To appoint a proxy you should complete the Form of Proxy enclosed with this Notice of Annual General Meeting. To be valid, the Form of Proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of the same, must be delivered to the offices of Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU by no later than 48 hours before the time fixed for the meeting or any adjourned meeting.

(iii) In the case of joint holders, the vote of the senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

(iv) In the case of holders of depositary interests representing ordinary shares in the Company, a form of direction must be completed in order to appoint Capita IRG Trustees Limited, the Depositary, to vote on the holder's behalf at the meeting or, if the meeting is adjourned, at the adjourned meeting. To be effective, a completed and signed form of direction (and any power of attorney or other authority under which it is signed) must be delivered to the Company's Transfer Agent, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU by no later than 72 hours before the time fixed for the meeting or any adjourned meeting.

CORPORATE DIRECTORY

Secretary
Andrew Rae Burns

Registered Office
Trident Chambers
PO Box 146
Road Town
Tortola
British Virgin Islands

Company Number
475668

Registrars
Capita Registrars
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Kent BR3 4TU

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Solicitors
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Corporate Advisors & Stockbrokers
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