

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or the action you should take, you should consult a person authorised for the purposes of the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities immediately, or an appropriate independent financial adviser if you are in a country outside the UK.

Application has been made for all the Ordinary Shares of Empire Online Limited (the "Company") in issue immediately following the Placing to be admitted to trading on the AIM market of London Stock Exchange plc ("AIM"). It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on AIM on 15 June 2005. The Ordinary Shares are not dealt in or on any other recognised investment exchange and no other such applications have been made for the Ordinary Shares to be admitted to trading on any such exchange.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority ("UKLA"). Neither the UKLA nor London Stock Exchange plc has examined or approved the contents of this document.

A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The whole of the text of this document should be read and, in particular, your attention is drawn to the section entitled "Risk Factors" in Part II of this document.

This document, which is an admission document required by the AIM Rules, has been drawn up in accordance with the Public Offers of Securities Regulations 1995 (the "POS Regulations") and the AIM Rules. This document does not constitute a prospectus for the purposes of the POS Regulations and a copy of it has not been filed with the Registrar of Companies in England and Wales.

The directors and the proposed directors of the Company, whose names appear on page 3, (the "Directors") accept responsibility for the information contained in this document and compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts, and this document makes no omission likely to affect the import of such information.

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# Empire Online Limited

*(incorporated and registered in the British Virgin Islands with registered number 475668)*

**Placing of 70,555,556 new Ordinary Shares  
at a price of 175 pence per share**

and

**Admission to trading on AIM**

**NUMIS SECURITIES LIMITED  
NOMINATED ADVISER AND BROKER**

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## Ordinary Share Capital Following Admission

<i>Authorised</i>		<i>Issued and fully paid</i>	
Number of Ordinary Shares	Nominal Value	Number of Ordinary Shares	Nominal Value
1,000,000,000	no par value	292,777,772	no par value

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The Placing Shares will, on Admission, rank in full for all dividends and other distributions thereafter declared, made or paid in respect of the Ordinary Shares and otherwise will rank *pari passu* in all respects with the existing Ordinary Shares.

Numis Securities Limited, which is regulated by the Financial Services Authority in the United Kingdom, has been appointed as the Company's nominated adviser and broker in accordance with the AIM Rules and, in each case, is acting exclusively for the Company in connection with the proposed Placing and Admission. Its responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to London Stock Exchange plc and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire Ordinary Shares or Depository Interests in reliance on any part of this document. Numis Securities Limited is not acting for any other person and will not be responsible for providing the customer protections afforded to customers of Numis Securities Limited to recipients of this document in respect of the Placing or any acquisition of shares or securities in the Company or for advising any other person in connection with the arrangements described in this document. Numis Securities Limited has not authorised the contents of, or any part of, this document for the purposes of Regulation 13(1)(g) of the POS Regulations. No liability whatsoever is accepted by Numis Securities Limited for the accuracy of any information or opinions contained in this document or for the omission of any material information.

The Ordinary Shares and the Depository Interests have not been, and will not be registered under the United States Securities Act of 1933 (the "Securities Act"), or the securities laws of any other United States jurisdiction or of any province or territory of Australia, Canada or Japan. Subject to certain exceptions, the Ordinary Shares and the Depository Interests may not, directly or indirectly, be offered, sold, taken up or delivered in, into or from the United States, Canada, Australia or Japan or to or for the account or benefit of any national, resident or citizen of the United States, or any person resident in Australia, Canada or Japan. This document does not constitute an offer to sell or a solicitation of an offer to purchase or subscribe for Ordinary Shares and the Depository Interests in any jurisdiction in which such offer or solicitation is unlawful or would impose any unfulfilled registration, publication or approval requirements on the Company, a broker-dealer or Numis (or any of their respective affiliates).

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## DIRECTORS, OFFICERS AND ADVISERS

<b>Directors and Proposed Directors</b>	Lord Leonard Steinberg ( <i>Proposed Non-Executive Chairman</i> ) Noam Lanir ( <i>Chief Executive Officer</i> ) Yossef Pereg ( <i>Chief Financial Officer and Chief Operating Officer</i> ) Andrew Rae Burns ( <i>Proposed Non-Executive Director</i> ) Richard Barry Rosenberg F.C.A. ( <i>Non-Executive Director</i> )
<b>all of:</b>	6th Floor 95 Griva Dighenis Street Limassol Cyprus
<b>Secretary</b>	Yossef Pereg
<b>Registered Office</b>	Trident Chambers PO Box 146 Road Town Tortola British Virgin Islands
<b>Nominated Adviser and Broker</b>	Numis Securities Limited Cheapside House 138 Cheapside London EC2V 6LH
<b>Solicitors to the Company</b>	Nabarro Nathanson Lacon House 84 Theobald's Road London WC1X 8RW
<b>BVI Solicitors to the Company</b>	Harney Westwood & Riegels Craigmuir Chambers PO Box 71 Road Town Tortola British Virgin Islands
<b>Solicitors to the Nominated Adviser and Broker</b>	Travers Smith 10 Snow Hill London EC1A 2AL
<b>Reporting Accountants and Auditors</b>	BDO Stoy Hayward LLP 8 Baker Street London W1U 3LL
<b>Registrars</b>	Capita IRG (Offshore) Limited Victoria Chambers Liberation Square 1/3 The Esplanade St Helier Jersey JE4 0FF

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## DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

“Admission”	the proposed admission of the issued and to be issued Ordinary Shares (including the Placing Shares) to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	the AIM market of the London Stock Exchange
“AIM Rules”	the rules of the London Stock Exchange governing the admission to and operation of AIM
“Articles”	the articles of association of the Company adopted in connection with Admission
“BDO”	BDO Stoy Hayward LLP
“Board”	the board of directors of the Company
“BVI”	British Virgin Islands
“BVI Act”	the International Business Companies Act (cap.291) of the BVI
“Cassava” or “Cassava Enterprises”	Cassava Enterprises (Gibraltar) Limited, a company registered in Gibraltar
“certificated” or “in certificated form”	in reference to a share or other security, one which is not held in uncertificated form
“Company” or “Empire Online”	Empire Online Limited, a company incorporated in the BVI with registered number 475668
“CREST”	the relevant system (as defined in the CREST Regulations) in respect of which CRESTCo is the operator (as defined in the CREST Regulations)
“CREST Regulations”	the UK Uncertificated Securities Regulations 2001 (SI 2001 No. 01/3755), as amended
“CRESTCo”	CRESTCo Limited, the operator of CREST
“Depository Interests”	depository interests issued by Capita IRG Trustees Limited in respect of Ordinary Shares which depository interests may be held in and transferred through the CREST system as more particularly described in paragraph 16 of Part I of this document
“Directors”	the Existing Directors and the Proposed Directors of the Company as at the date of this document whose names are set out on page 3 of this document
“Group” or “Empire Online Group”	the Company and its subsidiaries, which for the purposes of this document includes the business and certain assets of Tradal Tradal which are to be transferred to the Company pursuant to the Reorganisation
“Existing Directors”	Noam Lanir, Yossef Pereg and Richard Rosenberg
“London Stock Exchange”	London Stock Exchange plc
“Numis”	Numis Securities Limited
“Official List”	the Official List of the UKLA

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“Ordinary Shares”	ordinary shares in the capital of the Company, each having no par value
“PartyGaming”	PartyGaming Plc, an owner and operator of an online poker room and casino gaming business
“Placing”	the conditional placing by Numis of the Placing Shares to institutional and other investors at the Placing Price pursuant to the terms and conditions of the Placing Agreement as described in this document
“Placing Agreement”	the conditional agreement dated 10 June 2005 between the Company, the executive Directors, certain of the existing Shareholders and Numis, a summary of which is set out in paragraph 8 of Part V of this document
“Placing Price”	175 pence per Placing Share
“Placing Shares”	70,555,556 new Ordinary Shares being issued by the Company
“Proposed Directors”	Lord Leonard Steinberg and Andrew Rae Burns, who will become non-executive directors of the Company on Admission
“POS Regulations”	the Public Offers of Securities Regulations 1995, as amended
“£”	pounds sterling
“Reorganisaton”	the reorganisation pursuant to which the Company has agreed to acquire, conditional upon Admission, certain of the business and assets of Tradal, more fully described in paragraph 2 of Part I of this document
“Shareholder”	a holder of Ordinary Shares
“Share Option Scheme”	the Empire Online Limited Discretionary Share Option Plan, details of which are set out in paragraph 5 of Part V of this document
“subsidiary”, “subsidiary undertaking”, “undertaking” and “associated undertaking”	have the meanings respectively ascribed to them by the Companies Act 1985 (as amended), disregarding for this purpose paragraph 20(1)(b) of Schedule 4A to the Companies Act 1985 (as amended)
“Tradal”	Tradal Limited, a company incorporated in St. Vincent and the Grenadines in 1992 with registered number 887 CDT 2000
“uncertificated” or “in uncertificated form”	recorded on the relevant register of the share or security concerned, as being held in uncertificated form in CREST, and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
“United Kingdom” or “UK”	United Kingdom of Great Britain and Northern Ireland
“UKLA”	United Kingdom Listing Authority
“United States” or “US” or “USA”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
“US\$”	United States dollars
“WPC Productions”	WPC Productions (Gibraltar) Limited, a company registered in Gibraltar and a subsidiary of PartyGaming

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## GLOSSARY OF TECHNICAL TERMS

“active player”	a person who has played a real money game or deposited or withdrawn money to or from his online gaming account at least once in the previous 90 days
“affiliate”	in the case of the Group’s affiliates, a person who contracts with the Company or another member of the Group to promote the Group’s promoted websites to potential players in return for a fixed amount or a share of the revenue earned by the Company or relevant member of the Group from the gaming operator
“bonuses”	promotional credits added to a player’s account balance and given to players specifically to stimulate Rake or Casino Net and/or player deposits
“Casino Net”	the gross revenue generated by players on casino websites, calculated according to the agreement with the relevant operator but essentially the revenue accruing to the operator from casino games
“chargeback”	approved and settled credit card transactions which, for any reason whatsoever, are subsequently declined, returned, reversed or refunded to the gaming operator by the relevant cardholder, issuing or acquiring bank, or credit card company or association, together with any bank fees, fines and any other charges incidental thereto
“dormant player”	a real money player who is no longer an active player
“fun player”	a person who opens an online gaming account, but does not fund his account with actual money
“gaming operator” or “operator”	the company or entity which owns and operates the game played by players and the related software and holds a gaming licence to do so
“opponent”	an online poker player not registered with <i>empirepoker.com</i> playing poker at the same online table as an <i>empirepoker.com</i> registered player or players
“play money games”	poker and other casino games played by a player without using actual money
“Rake”	in non-tournament poker play, the Rake is the amount withheld by the gaming operator from the total amount bet by players for each hand played and, in tournament play, the Rake is the aggregate of the amounts that players pay to enter the tournament
“real money games”	poker and other casino games played by players using actual money
“real money player”	a person who opens an account and funds his online gaming account with actual money
“white label arrangement”	an arrangement under which a gaming operator provides the infrastructure and the majority or all of the support functions required to operate a game, such as gaming servers and software, payment processing, technical support and back office management, and the Company provides marketing services to generate new players for that online game through a website managed by the Company, and a “white label website” is a website set up for this purpose

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## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	<i>2005</i>
Admission effective and dealings commence in the Ordinary Shares on AIM	15 June
Expected date for CREST accounts to be credited with Depository Interests	15 June
Definitive share certificates dispatched in respect of the certificated Placing Shares	by 22 June

## PLACING STATISTICS

Placing Price	175 pence
Number of Ordinary Shares in issue prior to the Placing	222,222,216
Number of Ordinary Shares being placed on behalf of the Company	70,555,556
Number of Ordinary Shares in issue immediately following Admission	292,777,772
Market capitalisation of the Company at the Placing Price following Admission	£512,361,101
Estimated net proceeds of the Placing to be received by the Company	£18.6m
Percentage of enlarged issued share capital subject to the Placing	24.1%
Expected dividend in respect of the year ending 31 December 2005 <sup>(1)</sup>	US\$30m
Expected dividend yield at the Placing Price <sup>(2)</sup>	3.43%

- Notes:
- (1) This dividend is not wholly related to the expected results of the Group's operations for the relevant period and should not be interpreted as giving any indication or forecast of the results of the Group's operations for such period. The declaration and payment by the Company of any future dividends on the Ordinary Shares will depend on the results of the Group's operations, its financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed to be relevant at the time. The Company expects to pay dividends to Shareholders in Sterling.
  - (2) Calculated on the basis of the expected dividend for the year ending 31 December 2005, the market capitalisation of the Company at the Placing Price immediately following Admission and a US\$ : £ exchange rate of US\$1 : £1.80.

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## PART I

### INFORMATION ON THE GROUP

#### 1. INTRODUCTION

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 online poker and online casino websites operated by third party gaming operators, principally *empirepoker.com* (a white label website related to *PartyPoker.com*, one of the largest online poker rooms) and Casino-On-Net (part of *888.com*, one of the most established online casino websites). The Company also has arrangements with a subsidiary of PartyGaming to market other online gaming websites, including *AceClub.com* and *starluckcasino.com*.

The marketing services supplied by the Group are generally provided either through white label arrangements or through marketing agreements.

The Group generates new players through both online and offline marketing techniques, including an extensive affiliate programme, through which the Group incentivises third parties to direct new players to white label websites or to client gaming websites by paying either a fixed amount or a share of the Group's revenues generated from each such referral. Other marketing techniques include the registration of suitable domain names for the purpose of redirecting internet traffic, word of mouth referrals and the use of marketing agents. More recently, the Group has used offline marketing campaigns which have shown significant results in the countries where they have been implemented to date. The results of these marketing efforts are monitored daily by data analysis techniques which enable the Group to assess the effectiveness of its marketing and to adjust it accordingly.

In the year ended 31 December 2004, poker-related income represented approximately 67 per cent of the Group's revenue, with online casino-related income representing approximately 33 per cent of the Group's revenue. In the 3 months ended 31 March 2005, poker-related income represented approximately 77 per cent of the Group's revenue and casino-related income represented approximately 23 per cent of the Group's revenue. As online poker is a faster growing sector of the online gaming market than online casinos, the Directors expect poker-related revenue to constitute an increasing percentage of the Group's annual turnover in future.

As of 31 March 2005, Empire Online had, either itself or through its affiliate programme, attracted over 144,000 new real money players to *empirepoker.com* since the launch of the site in November 2002. The Group has also, either itself or through its affiliate programme, attracted over 260,000 real money players to online casino websites since 1998. In March 2005 alone, the Group, either itself or through its affiliate programme, attracted 12,572 new real money players to the *empirepoker.com* website and a total of 4,294 new real money players to online casino websites which it promotes. These figures represent an increase on March 2004 figures of 166 per cent for poker players and 36 per cent for casino players. As of 31 March 2005, the Group had 91,549 active real money poker players and 30,093 active real money casino players.

The Directors believe that the Group's key strengths are:

- strong and innovative management and staff, with a proven track record of developing and growing the Group to become one of the largest of its kind;
- its experience and understanding of targeted online marketing for the online gaming market;
- a strong position in the online poker market;
- effective systems for analysing the success of its marketing campaigns;
- employee loyalty, encouraged through player procurement reward schemes; and



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- an extensive affiliate programme which offers leading gaming products and the ability to be paid from one source for marketing multiple non-related brands.

## **2. HISTORY, BACKGROUND AND REORGANISATION**

The Company was incorporated in the BVI as an international business company with limited liability on 2 January 2002. Since November 2002, it has carried on the business of, *inter alia*, marketing and promoting online poker websites, principally *empirepoker.com*. The casino-related operations of the Group have been carried out by Tradal since August 1998. The Group has implemented a Reorganisation, through which the Company has agreed to acquire, conditional on Admission, certain of the key assets of Tradal, including a majority of Tradal's intellectual property rights (other than to the extent required by Tradal to perform the services described below) and the benefit of its trading contracts. Although Empire Online and Tradal have the same controlling shareholders and management and have effectively operated as sister companies, they do not, nor will they, form part of the same corporate group. The consideration for the assets acquired from Tradal is approximately US\$175,000,000 and is to be paid after Admission by the Company in cash from the proceeds of the Placing.

As well as agreeing to transfer certain of its key assets to Empire Online, Tradal has, as part of the Reorganisation and conditional upon Admission, agreed to provide certain operational, support and other services to the Group so that the Group can fully utilise the acquired assets. Tradal will provide these services to the Group on an exclusive basis at cost for such period of time as Empire Online requires and has granted the Group the right to acquire the assets used to perform the services at the time of termination of the agreement. Tradal has also undertaken to cease providing marketing and promotional services to the online gaming industry and not to compete in any way with the Group in future. In addition, Tradal has agreed to stop using its 'Tradal' trading name (the rights to which shall transfer to the Company) and to change its corporate name.

A summary of the key documents relating to the Reorganisation is set out in paragraph 11 of Part V of this document.

## **3. THE BUSINESS**

### **Online Poker**

The Company's principal activity (by revenue) is the delivery of new players to the *empirepoker.com* website through online and offline marketing and advertising and the provision of software downloads via the internet. Once on the *empirepoker.com* website, new online poker players are initially required to download the gaming operator's software from the Company's servers onto their computers in order to play. Once this software has been downloaded the Company ceases to have a role, and players register on and connect to the operator's gaming server.

The operator's software attempts to replicate the environment of a poker room, with players navigating the website by way of a 'virtual lobby'. Visually, the background graphics displayed to the player are branded as *empirepoker* but the gaming software and functionality are provided by WPC Productions. Indeed, *empirepoker* players may currently play against opponents accessing the operator's software via another white label website or directly through the *PartyPoker.com* website itself. These opponents may view a display that is different to that experienced by the *empirepoker* player while still playing at the same virtual table as *empirepoker* players.

Players are required to deposit money into an account with the gaming operator prior to playing real money games or before registering for a poker tournament.

As well as enabling players to play real money games, *empirepoker.com* also allows players to play "play money" games and to enrol in the Empire Poker School. Play money games enable players to familiarise themselves with the operator's software and to play practice games with no financial risk. The Empire Poker School feature is operated and owned by the Company and is designed to

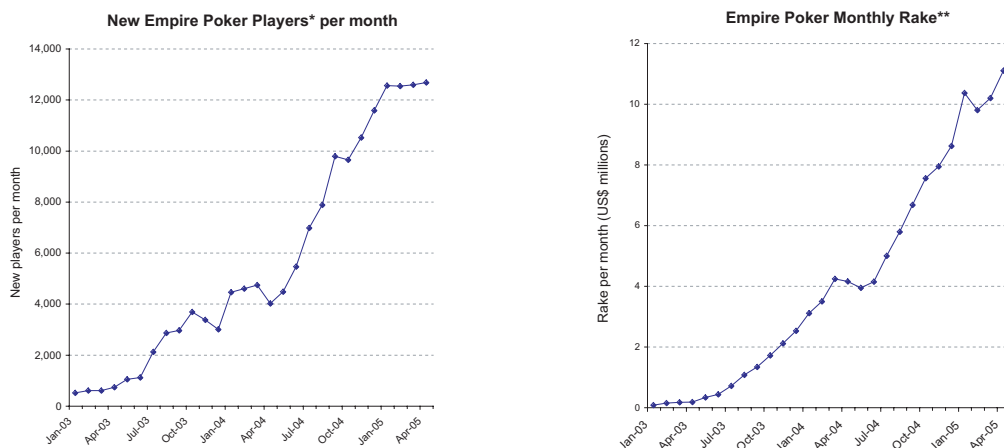
teach the rules and rudiments of poker to players unfamiliar with the game. These features help new players to improve their poker skills and to develop the confidence to become real money players. Although the Directors believe both of these features play a role in attracting new players to *empirepoker.com*, it should be noted that all figures given in this document relating to the number of *empirepoker* players relate to real money players only and do not include the number of fun players attracted by the Company.

The Company provides support for certain high value players and servers from where players can download gaming operators' software, but otherwise all support functions, including the provision and maintenance of gaming software, payment processing, technical support and back-office management are provided by the gaming operator. It should be noted that the Group does not itself own or operate any online poker gaming software.

Empire Online derives all of its poker-related revenues from its entitlement to a percentage of the amount withheld by WPC Productions from the total amount bet on each hand in a poker game less certain deductions. The total amount withheld is called the Rake. The Rake varies between zero per cent and ten per cent (but is typically three per cent) of the amount bet on each hand played, up to a maximum of US\$3 per hand. Amounts owed to the Company in respect of the active players introduced by the Company or by its affiliates are notified daily and cash is transferred by WPC Productions to the Company's bank account on a monthly basis.

In the year ended 31 December 2004, the Group generated revenue of US\$43.3 million from its activities in relation to the promotion of *empirepoker.com*, representing 67 per cent of the Group's income for that period.

The graphs below demonstrate the significant growth that the Company has enjoyed in terms of new real money poker players and Rake generated.



\* Real money players

\*\* The Group's revenue is based on a percentage of the Rake less certain deductions

Detailed financial information on the Group is set out in Part III of this document.

The Directors believe that the growth in the aggregate monthly gross Rake, from which the Company receives its percentage share, is attributable to the Group's efforts and also to the growth in the market for online poker in recent years. The Directors believe that this market will continue to grow for the foreseeable future, though no guarantee or estimate of future growth is or can be given. The Directors also believe that the Company has achieved a rate of Rake growth significantly higher than the average for the industry as a whole since January 2003.

Further information on the online poker market is set out in paragraph 4 of this Part I.

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## Online Casino

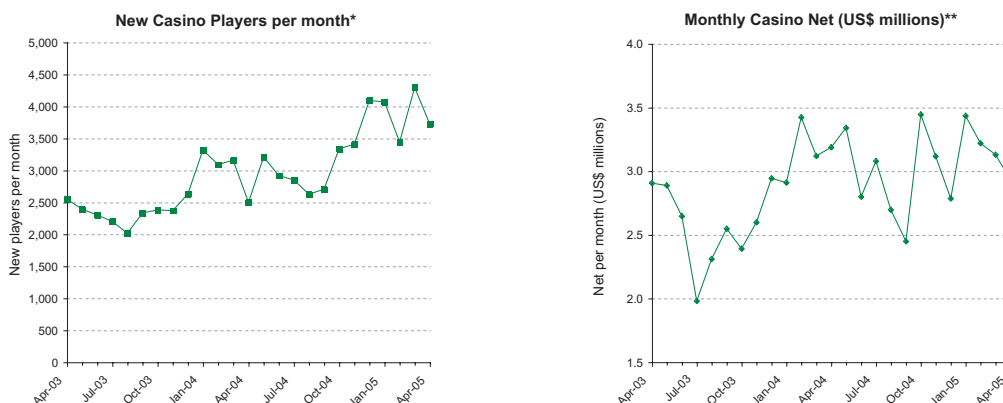
The Group is a leading provider of marketing services to online casino operators. It owns and/or uses several domain names for the purposes of directing potential players to websites from which the gaming operator's software can be downloaded. These domain names include *www.entercasino.com*. The Group's principal relationship is with Cassava Enterprises, which owns and operates *888.com* and Casino-On-Net and with which the Group has a non-exclusive online marketing and advertising agreement. Empire Online also promotes other white label websites, including *AceClub.com* which it promotes through a white label arrangement with IglobalMedia Entertainment Ltd, a subsidiary of PartyGaming.

As with the online poker business, players are required to download the casino operator's gaming software from the Company's servers onto their computers from the operator's website to which they have been directed by the Group. Once this software has been downloaded, the Company ceases to have a role, and players register on and connect to the operator's gaming servers. This software offers a variety of casino games. It should be noted that the Group does not itself own or operate any online casinos or any related casino gaming software.

The Group derives its online casino-related revenues from its entitlement to a percentage of the revenues earned by the gaming operator from the players directed by members of the Group or by their affiliates to online casino websites. The Group receives a fixed percentage of the revenues earned by the online casino operator from deposits made with the operator by players less withdrawals (such as winnings), chargebacks and other amounts.

In the year ended 31 December 2004, the Group generated revenue of US\$21.8 million from its online casino-related activities, representing approximately 33 per cent of its total income. Of this revenue, approximately 77 per cent was attributable to the Group's agreement with Cassava Enterprises.

The graphs below show the growth in new real money casino players and the monthly Casino Net attributable to real money players introduced by the Group from 1 April 2003 to 30 April 2005 (the latest period for which numbers are available). The graph relating to monthly Casino Net demonstrates that the monthly Casino Net has grown slightly over the period but displays volatility due, *inter alia*, to some seasonality in the business and the effect of large wins by players.



\* Real money players

\*\* The Group's revenue is based on a percentage of the Net

Detailed financial information on the Group is set out in Part III of this document.

Independent reviews have indicated that the market for online casinos was stable during 2002 and 2003, despite revenues in those years being affected by the decision of certain US credit card issuers to stop processing transactions relating to internet gambling until alternative arrangements

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were established with other online payment processors. Between the first quarter of 2004 and the first quarter of 2005, the Group experienced growth in the number of new real money casino players of approximately 23 per cent. The Directors believe that the Group's revenue from online casino-related activities will continue to grow in the foreseeable future, though the Directors give no guarantee or estimate of the rates of any future growth.

Further information on the online casino market is set out in paragraph 4 of this Part I.

### **Customer acquisition and retention**

Empire Online generates players for online poker and online casino websites through a mixture of online and offline marketing techniques which are aimed at generating new players and re-activating or increasing revenues from existing players. Historically, the Group has focused on online marketing techniques but in the second half of 2004, it introduced a number of offline marketing techniques as further described below.

*Generation of new players:* a number of key marketing techniques are employed, including:

- affiliate programmes – the Group currently has over 2,000 active affiliates, whose role is to direct potential players to *empirepoker.com* and the Group's other promoted websites. Agreements with affiliates are based on either a revenue share model (where the affiliate receives a percentage of the Group's revenue generated from players introduced by the affiliates) or a cost per acquisition model (where the affiliate is paid a flat rate for each real money player it refers). The Directors believe these programmes to be attractive to existing and potential new affiliates as they offer a number of gaming products from one source. Affiliates are managed through a proprietary, fully automated, online system owned and operated by the Group. Empire Online supports affiliate management through dedicated account managers, technical teams and creative teams;
- the ownership of domain names – used to redirect potential players to the Group's promoted websites, such as *onlinepoker.com* and *poker.dk*;
- search engine optimisation – search engine experts aim to position the Group's websites or affiliate websites at the forefront of search engine response lists;
- marketing offline through land-based poker rooms and other gaming operations;
- growing awareness – the Group has successfully used a 'tell a friend' programme, where bonuses are paid to players who refer other active players to *empirepoker.com* and the Group's other promoted websites;
- agents – the Company engages marketing agents, who are incentivised to find websites to join the Group's affiliate programme. Agents receive a percentage of the gross profit generated by the Group based on the players these affiliates refer to *empirepoker.com* and the Group's other promoted websites. As at 31 March 2005, there were 16 such agents retained by the Company; and
- internet traffic purchases – where an existing website provider is paid for directing users to the Group's promoted websites.

Empire Online has not historically placed much advertising through mainstream media. However, the Company intends to increase its offline marketing and brand awareness activities in targeted European countries, and proposes to roll out an extensive public relations programme during 2005. Over the last six months, the Group has conducted offline brand awareness campaigns which have been very successful in attracting significant numbers of new players in a very short period following the launch of these campaigns.

The first campaign was launched in Denmark in November 2004 and involved the use of a local domain name and an offline poker academy, which were used to raise the awareness of poker and to teach potential new players how to play the most popular games, such as "Texas Hold-em". In

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addition, the Group sponsored a local poker tournament which was publicised by a variety of methods, including billboard advertising and local celebrity endorsement. Following the campaign, new real money players from Denmark increased from 98 in the month of October 2004 to 1,012 in January 2005.

The second campaign (which adopted the same model) was launched in Sweden in January 2005 and met with similar success, with new real money players from Sweden increasing from 151 in the month of December 2004 to 591 in March 2005.

These campaigns involved the creation of a model which the Directors believe can now be successfully applied to other targeted countries, selected according to certain criteria including, *inter alia*, levels of internet penetration, numbers of players currently registered with the Group and the extent to which the promotion of online gaming is restricted by local laws. The cost of the initial phases of each campaign was approximately US\$850,000. In March 2005, a campaign based on this model was launched in Norway, and the Company has begun to see positive results from this campaign. In May 2005, a similar campaign was launched in the Netherlands, which is at an early stage.

The Company intends to use a part of the proceeds of the Placing to fund the acceleration of its plans to penetrate other identified countries. This includes seven countries in Europe in which it intends to apply the model by November 2005 (four new territories in September 2005 and a further three in November 2005). The Company has allocated approximately US\$15 million to implement these and further campaigns during 2005 and 2006 from the net proceeds of the Placing.

**Existing registered players:** several key marketing strategies are aimed at players who have registered with *empirepoker.com* and other promoted websites to encourage play money players to become real money players, to encourage dormant players to become active players again and to encourage existing real money players to increase the number of hands and games they play. Such marketing strategies include:

- Deposit bonuses – Empire Online offers a bonus to players which is paid to their online account with a relevant gaming operator. Such bonuses are paid upon completion by the player of a pre-determined number of hands. Occasional bonuses are also given to active players. By increasing account deposits in this way, the Directors expect that such customers will play more often and for longer sessions.
- VIP players – high value players are offered special customer support services and features such as cash prizes, free tournaments and gifts and products. The more a player plays games through *empirepoker.com*, the more likely he will be to benefit from this loyalty programme.
- Guaranteed tournaments – Empire Online markets daily guaranteed tournaments with a daily US\$50,000 prize pool and monthly tournaments with prize pools of over US\$2,000,000. These tournaments, with their guaranteed high value prizes, are a major attraction to players. This activity runs by the hour throughout the day and is available 24 hours a day. The gaming operator remains responsible for payment of such prizes.
- Satellite tournaments – Empire Online markets online tournaments offering entry into offline poker tournaments such as those run by the World Series of Poker™.

The above “internal” marketing strategies are considered by the Directors to be key in maximising the total lifetime value of real money players to the Group. The Company has found that players respond well to these incentives and loyalty programmes. The Group’s customer service department is responsible for dealing with VIP customer enquiries and requests. Although such bonuses, tournament winnings and prizes ultimately affect the revenues earned by the Group (as they reduce the amount of the player-derived revenue from which the Group derives its percentage share), payment of them remains the responsibility of the online gaming operator and not the Group although the Group ultimately incurs the liability.

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## Player analysis

The Group attracts players from over 150 countries around the world. Approximately 70 per cent of players introduced to the Group's promoted websites are based in the United States. This percentage has been falling and the Directors believe that it will continue to fall as new players are generated from European and other countries.

In 2004, approximately 84,000 new real money players registered on the *empirepoker.com* website. The Directors believe that there is a strong correlation between the rate of player registration and the aggregate value of Rake earned by the gaming operators, and consequently the Group's revenue. In each month of the first quarter of 2005, an average of 12,544 new real money players registered on the *empirepoker.com* website, an increase of 174 per cent year-on-year. As at 31 March 2005, Empire Online had a total of 144,320 real money poker players, of whom 91,549 were active.

During 2004, approximately 37,250 new real money players were introduced by the Group, either directly or through its affiliate programme, to its promoted online casino websites. Most of these new players registered on the *888.com* website. In the first quarter of 2005, an average of 3,940 new real money players a month were introduced by the Group, either directly or through its affiliate programme, to the Group's promoted online casino websites, an increase of 23 per cent year-on-year. As at 31 March 2005, Empire Online had a total of 118,987 real money casino players who had registered since 1 January 2002 and a total of 30,093 active real money casino players.

The Group's poker and casino real money player base (including online casino players registrations acquired from Tradal pursuant to the Reorganisation) has grown significantly since the establishment of the online casino business in 1998 and the online poker business in 2002.

		Year to 31 December			3 months to
		2002	2003	2004	31 March
					2005
Number of registered active players at period end	Poker	193	16,350	71,466	91,549
	Casino	14,498	18,215	32,333	30,093
Number of new real money players registered during period	Poker	193	22,489	84,005	37,633
	Casino	39,859	30,188	37,150	11,790

In 2002 and 2003 player registrations were affected by the decision of certain US credit card issuers to stop processing transactions relating to internet gambling. A further explanation of this is contained in paragraph 2.9 in Part II of this document. The high levels of growth in player numbers and expenditure since the beginning of 2003 reflect the start of the Group's online poker business and the development of the *empirepoker* brand.

Based on the year ended 31 December 2004, the Company has calculated its average cost of acquisition per real money player (in both casino and poker) to be approximately US\$220 which the Directors expect may increase with increased competition in the markets within which the Company operates and on the basis of the Group's proposed increase in offline marketing activity.

The Group's international player base is illustrated by the following geographical analysis of real money players who registered on the Group's promoted websites between 1 January 2002 and 31 March 2005:

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<i>Region</i>	<i>Number of registered real money players</i>	<i>%</i>
United States	186,233	70.8%
Canada	12,749	4.8%
Europe	45,354	17.2%
Rest of the World	18,971	7.2%

The Directors believe that activity levels in any particular geographical market are partly determined by the relative maturity of that market. The North American market (the United States and Canada) is believed to be more mature than other areas of the world as it has relatively high internet penetration and a large number of existing online gamblers.

The geographical spread of registered real money players illustrates the current importance to the Group of the North American market. The Directors' strategy is to build up the Group's client base outside North America so as to lower the relative importance of North American players to the Group. In line with the Group's strategy, the proportion of the Group's real money players from North America has reduced steadily in recent months as the Company's growth strategy is designed to increase the number of non-North American players, reducing reliance on the North American market.

### **Internal controls and systems**

As Empire Online does not operate any of the games itself and neither owns nor has responsibility for the gaming software and/or equipment, the Company relies on the integrity of the software and equipment provided by the gaming operators to prevent collusion between players and fraud from being committed. The Directors understand that systems and controls to prevent collusion and fraud have been put in place by the online gaming operators with which the Group works. The Company has also itself developed methods of analysing unusual and therefore potentially fraudulent activity. In addition, the Directors believe that the gaming software operated by each operator is independently audited so as to ensure its fairness.

The Directors understand that they have a responsibility for ensuring that the Group's marketing activities and those of its affiliates do not contravene laws applicable to the Group and its client gaming operators, including any money laundering provisions applicable to the activities of the Group and its affiliates. In this regard and to minimise these risks, the Company regularly monitors the activities of its affiliates and has, on a number of occasions, had cause to terminate affiliate agreements due to their activities being inappropriate. As the games and the software (including the acceptance of deposits from players) are operated by the gaming operator, the Directors believe the ultimate responsibility for ensuring compliance with laws applicable to player registration and activities, such as money laundering and under age gaming, rests with such operators. The Directors understand that each of the operators with which the Group works has procedures in place to ensure such compliance and the Group undertakes random discrete checks to try to ensure that this is the case.

In this regard attention is drawn to the risk factors set out in paragraph 1 of Part II of this document.

### **Intellectual property and IT Systems**

The Company owns a number of domain names through which it seeks to direct potential players to *empirepoker.com* and to other promoted websites from where players are able to download the operators' gaming software. These include *www.ep.com*, *www.onlinepoker.com* and *www.entercasino.com*.

The Company has developed the *empirepoker.com* brand since it began marketing and promoting online poker games for WPC Productions in 2002. The Company does not own the domain name

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*www.empirepoker.com*, although it has the right to acquire this domain name for a nominal sum. The use of the *empirepoker.com* brand is subject to restrictions on both the Company and WPC Productions. The Company does not own any proprietary right in the gaming software accessed through the *empirepoker.com* website or any other client websites, other than the right to permit the software to be downloaded from the Group's promoted websites and to provide copies of it as part of its marketing activities. The Group's use of player data collected when the players register on the Group's promoted websites is governed by the terms of the agreements between the Group and the respective gaming operators. The Company limits its use of such player data to the marketing activities summarised above. Further information regarding the use of the *empirepoker.com* brand and player data is contained in paragraph 2.1 of Part II of this document.

The Group owns a number of servers located in Europe which host among other things the gaming operators' gaming software, the player data, the Group's websites, detailed statistical analysis on player activity and information on the Group's affiliates.

With the exception of the initial downloading of the gaming operators' software from the Group's servers, all gaming and transaction processing-related IT functions are provided by the gaming operators.

#### **4. THE ONLINE GAMING MARKET**

Since its inception in the early 1990s, online gaming has experienced strong growth, with 2004 revenues estimated by independent research provider Global Betting and Gaming Consultants ("GBGC") to have been in excess of US\$9 billion. GBGC also estimates that this figure represents just 3.9 per cent of the total (including land-based) gambling market in 2004 of US\$238 billion. GBGC estimates that 45 per cent of 2004 online gambling revenues were derived from players in North America, with 31 per cent derived from players in Europe.

The online gaming market can be roughly split into the following categories: poker, casino, betting, bingo, lotteries and other gambling. Of these categories, Empire Online currently operates in only the online poker and online casino markets.

##### **Online poker market**

In recent years, online poker has experienced rapid growth in excess of the growth of the overall online gaming market. The Directors estimate there to be around 200 online poker websites in operation globally. Although estimates as to the current size and growth rates of the online poker market vary, based on independent industry analysis, the Directors believe that, based on the current industry total daily Rake, the market currently earns in excess of US\$2 billion in annual revenues compared with US\$0.4 billion in August 2003. The Directors also believe that, on average, in excess of 37,500 people play online poker for real money at the peak usage times every day. The market is currently dominated by North American players who, the Directors estimate, represent around 75 per cent of the total number of online poker players worldwide. When compared with the geographical spread of players for the online gambling market as a whole (as reported by GBGC), the Directors believe there are significant further growth opportunities for the Group outside North America.

According to the River City Group (an independent provider of research for the online gaming industry), factors that have contributed to the rapid growth of online poker include:

- poker's popularity in Hollywood and on TV, and the subsequent rebirth of poker as an American pastime;
- the entrance of major gaming and entertainment companies into the poker space;
- increased consumer access to broadband;
- the adaptability of the online gambling industry; and



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- the maturing of other online gambling sectors (casino, sports books etc) and the need for new revenue streams.

The Directors believe that one of the key drivers for the growth of online poker is the relationship between the online and offline poker game, with online players able to enter major offline poker tournaments with large prizes, such as the World Series of Poker™, through online satellite tournaments. The Directors believe that the success of online players in major offline tournaments has given online poker significant credibility and raised customer awareness.

Online poker also provides players with a variety of poker games on a multi-player or one-on-one basis, together with a wide range of stakes. New players can also learn to play the game at their own pace using play money tables. Another major attraction of online poker is that players can quickly gain experience of the game due to the number of hands that can be played in a short period of time, and the availability of tables 24 hours a day.

Whilst the number of online poker websites continues to increase, the Directors believe that the online poker market is dominated by a number of larger operators offering greater player liquidity and a larger variety of games.

### **Online poker market – barriers to entry**

Given the availability of ‘off-the-shelf’ poker software, the barriers to entry for launching an online poker website are in theory low. In practice, however, the Directors believe that there are substantial barriers to building an online poker business of significant size and scale, as the success of an online poker website is largely dependent on having enough active players. Online poker players are likely to be attracted to those websites, such as *empirepoker.com*, which are able to offer a large number of tables and players and a wide variety of games and stakes. For this reason, the larger operators are attracting new customers at a faster rate than the market average. On this basis, the Directors believe that there will be consolidation in the online poker market in the future.

The Directors believe that the key elements for a successful online poker business are:

- Player liquidity – it is important to provide players with enough competitors at the skill and stake level of their choice and at the times they wish to play. Large-scale, multi-table tournaments with large cash prizes are only viable for websites with a large number of players. Currently, players who register on *empirepoker.com* are able to play against players registered with other white label websites which are used to download *PartyPoker.com* software. In future, it might be the case that players registered with *empirepoker.com* will only be able to play against other registered players of *empirepoker.com*. Because of the large number of players registered with *empirepoker.com*, the Directors believe that this will not materially affect the revenues of the Group.
  - Software – functionality and customer experience are important elements in being able to attract and retain players. The software must be capable of providing a range of games and stake levels as well as tournament structures. Providing an entertaining experience for players depends upon high quality graphics and fast handspeed.
  - Marketing resources – as competition between online gaming websites increases, marketing and generating brand awareness are key to attracting and retaining players, as are the provision of attractive and popular site features, such as links to offline poker tournaments. A key metric for successful marketing is the cost per acquisition (CPA) of new players. According to River City Group, CPA rates can range from \$200 to \$2,000.
  - Global reach – in order to take advantage of the significant growth potential of online poker, the owners of online poker brands are having to raise customer awareness of their brands and make them known globally.
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- Maximising player value – the ability of operators to derive maximum value from players may be dependent on the effectiveness of incentives offered to dormant players to resume gaming and to active players to play more and/or different types of poker games.

The online poker market is considered by the Directors to be highly competitive and characterised by rapid technological change, with the number of online gaming operators and brand owners increasing. The Directors believe that the Group's prospects in marketing the services currently offered by it are helped by the significant presence of the *empirepoker* brand, the number of players attracted to *empirepoker.com* through the Company's well-established affiliate programme, and the variety and quality of the games and features which can be accessed through *empirepoker.com*.

### **Online casino market**

In general online casinos offer players 24-hour access to a wide range of games, including all those found in land-based casinos such as blackjack, roulette, and slots. Because of the relatively low overheads of online casino operators, they are generally able to offer higher prize payments than land-based casinos – typically 96 to 98 per cent, compared with 88 to 90 per cent at land-based casinos. The Directors believe that this disparity in payout rates encourages online players to play for longer than land-based players, allowing returns on capital to remain strong for online casinos despite these higher payout rates.

The online casino market is competitive as payout ratios can easily be compared on comparison websites. Players may switch accounts freely and often have accounts with a number of casinos. The Directors believe that a key success factor for online casinos is the ability to recruit and retain players by offering newer or better games, sign-up bonuses and larger prizes than competitors. The Directors also believe that further key success factors include a trusted brand, a broad product range and strong software capability.

Industry research indicates that there are currently more casino websites on the internet than any other category of online gaming. However, the Directors believe that the number of online casino websites has fallen from over 1,800 to under 1,200 in the last two years, indicating a maturing of this market. Despite this maturation, the Directors believe that online casinos will continue to operate profitably, generating strong cash flow.

## **5. REGULATORY AND OTHER RISKS**

Empire Online is not an online gaming operator and accordingly does not itself have a gaming licence. Empire Online provides marketing and promotional services to online gaming operators (including providing players with access to operators' gaming software through player downloads). The Directors, however, recognise that there are a number of potentially significant risks involved in a business of this kind and to the Group specifically and accordingly your attention is drawn to a fuller explanation of these risks set out in Part II of this document. These risks include the following matters:

- The marketing and promotion of online gaming is prohibited or restricted in some countries and highly regulated in others. In a number of countries, existing gaming law is subject to much debate and the position is uncertain. To the extent that national laws prohibit or restrict the provision of online gaming or the marketing and promotion of online gaming, such prohibitions and restrictions have the potential to have a material adverse effect on the Group's business and its future prospects. The extent of the risk that governments in the countries from where the Group draws its players will introduce more restrictive legislation to curb online gaming, or will enforce existing anti-gaming laws more aggressively, or will seek to prevent online gaming through seeking to restrict payment processing or marketing in relation to online gaming, is unknown.
- The Group's business is almost entirely dependent upon two contracts with its principal clients, WPC Productions and Cassava Enterprises. In each case, the agreement is capable of

being terminated at short or no notice for a number of reasons, including reasons which are beyond the control of the Group, such as those which relate to the legal and regulatory environment within which the online gaming industry as a whole operates. In the event of termination of the contract with Cassava, the Group would continue to be entitled to its percentage share of revenue generated by players introduced to Cassava's websites by the Group prior to such termination. In such circumstances, the Company would seek to enter into equivalent arrangements with one or more other online casino operators.

In the event of termination of the agreement with WPC Productions, the revenue received by the Group in respect of such agreement would cease with immediate effect. In such circumstances, the Company would seek to enter into arrangements with one or more alternative gaming operators with a view to directing players attracted by the Group to such alternative operators' websites and may seek to exercise its option to acquire the *www.empirepoker.com* domain name (further details of which are set out in paragraph 2.5 of Part II of this document). The Directors believe that this would be achievable (although there can be no guarantee that this would be achieved or that existing players would re-register with such alternative operator(s)). Any such termination of the agreement with WPC Productions would be likely, at least in the short term, to have a material adverse effect on the Group's revenues.

These particular factors should not be read in isolation from the other risks involved in investing in the Company set out in Part II of this document.

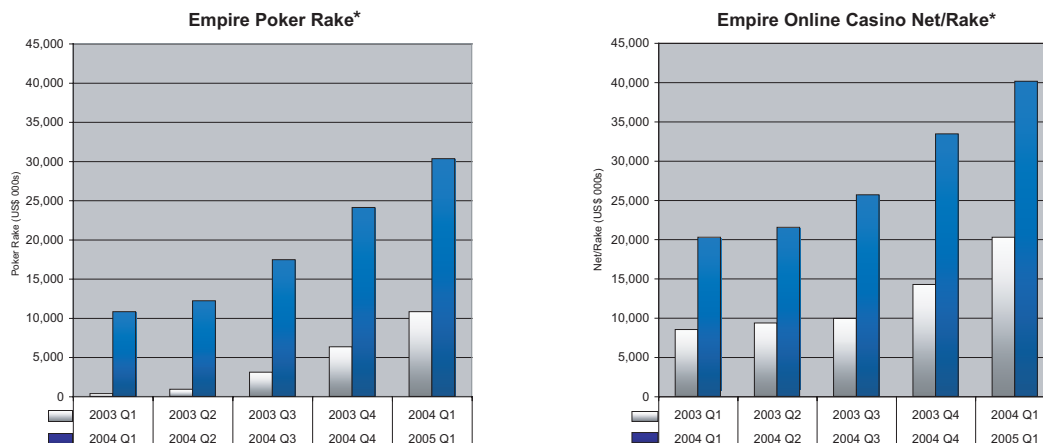
## 6. SUMMARY FINANCIAL INFORMATION

The following summary historic financial information is extracted without material adjustment from the financial information contained in Part III of this document. The information presented is an aggregation of the trading results of Tradal and the Company for that period as, throughout this period, those businesses were operated as separate legal entities.

In order to make a proper assessment of the financial performance of the Group, reliance should not be placed solely on the extract set out below but should be read in conjunction with the whole of this document, including the accountants' report set out in Part III of this document.

	<i>Year ended 31 December 2002 US\$ million</i>	<i>Year ended 31 December 2003 US\$ million</i>	<i>Year ended 3 months ended 31 December 2004 US\$ million</i>	<i>31 March 2005 US\$ million</i>
Turnover				
– Casino	21.4	20.7	21.8	5.7
– Poker	–	5.0	43.4	18.7
	<u>21.4</u>	<u>25.7</u>	<u>65.2</u>	<u>24.4</u>
Profit before tax	11.7	13.8	37.7	12.4
Profit after tax	11.7	13.8	37.7	12.4

The bar charts set out below show quarterly growth in (a) Rake and (b) aggregated Casino Net and Rake. They are not audited and are extracted from management information.



\* Empire Online's revenue is based on a percentage of these figures, less certain deductions in the case of the Rake.

## 7. MANAGEMENT AND FINANCIAL CONTROLS

The Directors consider that the Group's management and financial controls enable the timely and effective monitoring and control of the Group's operations, though the Directors continue to seek to improve such controls on an ongoing basis and are currently introducing additional procedures (including in respect of financial reporting) which the Directors consider particularly appropriate for a company with securities admitted to trading on AIM.

The Board formally meets on a quarterly basis to review, amongst other things, Group performance, significant contracts, legal and regulatory issues, new business, marketing and other relevant issues. The executive Directors are closely involved in the day-to-day control of the business.

The Group's accounting policies are considered by the Directors to be prudent, in accordance with applicable accounting standards and appropriate to the Group's business.

## 8. CURRENT TRADING AND PROSPECTS

Since 31 December 2004, trading in relation to both poker and casino related activities has been in line with the Directors' expectations. The Group's results for the three months ended 31 March 2005 are set out in Part III of this document and demonstrate continued growth in its online poker business. Trading in April has also been in line with the Directors' expectations with the Group generating 16,386 new real money players in that month.

The Directors believe that the Group is well positioned to take advantage of continued steady growth in the online casino market and strong growth in the online poker market and look forward to the Group's future with confidence.

## 9. STRATEGY

The Group's objective is to take advantage of the expected growth of the online gaming market by generating greater revenues in a cost-efficient manner through the acquisition of new players and by increasing the activity levels of the Group's existing players. This activity is currently focussed on poker and casino but, as the online gaming market develops, the Directors believe that the Company's core skill set of marketing online gaming could readily be transferred to other games (such as backgammon). The Directors continually monitor the development of the market and review opportunities for new games and to partner with leading gaming operators.

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The Company aims to pay particular attention to expanding its player base in certain European countries in the medium term, with the intention of raising its profile and reducing the Group's reliance on the North American market. Empire Online will also continue to pursue its existing strategies in relation to its primary markets of the United States and Canada to maintain its strong position in these markets.

The Company intends to increase its offline activity and branding campaigns in selected European countries, as detailed in paragraph 3 of this Part I.

The Group will also, if appropriate, explore the option of developing its own gaming software, although the Group would only pursue this strategy if the Directors believed this was in the best interests of the Group, if the Group could obtain all the appropriate regulatory approvals and licences and was confident that the technology was sufficiently robust and of high quality. The Directors will also consider acquiring businesses complementary to the Group should appropriate opportunities arise.

The Group may also seek agreements with online gaming operators with which it is not already working to allow Empire Online to direct players to those operators' gaming websites.

## **10. DETAILS OF THE PLACING**

The Company is proposing to issue 70,555,556 new Ordinary Shares pursuant to the Placing at the Placing Price, which will raise approximately £18.8 million (net of expenses) and will represent approximately 24.1 per cent of the enlarged issued share capital of the Company following the completion of Placing and Admission. The Placing Shares are being conditionally placed by Numis Securities with institutional investors.

The Placing is conditional on the satisfaction of certain conditions set out in the Placing Agreement including, *inter alia*, Admission becoming effective and the Placing Agreement becoming unconditional in all respects by not later than 15 June 2005 or such later date (being not later than 22 June 2005) as the Company and Numis may agree. The Placing is fully underwritten by Numis.

## **11. REASONS FOR ADMISSION AND USE OF PROCEEDS**

Empire Online is seeking admission of the Ordinary Shares to trading on AIM in order to create a public market in the Ordinary Shares, to raise its profile and status, and to provide the Group with direct access to an alternative source of capital.

Empire Online intends to use funds raised from the Placing:

- (i) to pay the consideration due to Tradal for the acquisition of its business and certain of its assets pursuant to the Reorganisation;
- (ii) to finance a substantial marketing programme in targeted territories, as more particularly described in paragraph 3 above;
- (iii) to potentially acquire other companies involved in the online gaming industry which the Directors consider to have unique technology or products or believe to be complementary to the Group's existing operations; and
- (iv) for general corporate purposes.

## **12. DIRECTORS**

The biographical details of the Existing Directors and Proposed Directors are set out below:

### ***Lord Leonard Steinberg (age 67), Proposed Non-Executive Chairman***

Lord Steinberg 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.

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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 38), Chief Executive Officer*

Noam founded the Empire Online business in July 1998, establishing and developing its marketing techniques and information systems. He currently oversees the Group'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.

*Yossef Pereg (age 37), Chief Financial Officer and Chief Operating Officer*

Yossi qualified as a certified public accountant (Israel) in 1996. He spent seven years as a lecturer in Computer and Information Systems in the College of Business Administration in Tel Aviv, Israel between 1992 and 1999. He also worked for four years as a senior corporate assessing tax officer with the Israeli tax authorities before spending two years with BDO Israel as a manager in its International Tax Department. Having advised Tradal on its corporate structure, Yossi left BDO Israel in July 1999 to help found the Cypriot branch of Tradal.

*Andrew Rae Burns (age 41), Proposed Non-Executive Director*

Andrew was Finance Director of Luminar plc from 1997 until February 2005. He qualified as a chartered accountant with Price Waterhouse (London) in 1989. 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, a private equity fund manager.

*Richard Barry Rosenberg (age 49), Non-Executive Director*

Richard qualified as a chartered accountant in 1980 and in 1988 co-founded the accountancy practice Sedley Richard Laurence Voulters. He has considerable experience in giving professional advice to clients in the leisure and entertainment industries. Richard is a director of a large number of companies operating a variety of businesses.

### **13. EMPLOYEES AND MARKETING AGENTS**

As at 9 June 2005, the Group employed 32 employees and had contracted 16 marketing agents. A number of the employees and all of the marketing agents are remunerated on a commission basis by reference to the gross profit of the Group directly attributable to their own marketing strategies. The Group's obligation to pay this commission continues beyond the termination of the employee's or marketing agent's agreement with the Group by reference to the new players attracted to the Group's promoted websites as a result of their marketing strategies up to the time of such termination provided that such new players continue to be active players. Historically, a small number of employees and marketing agents have accounted for a large part of the revenues generated by the Group (for example, over 50 per cent of the Group's online casino related revenues were generated by four marketing agents/employees). Following Admission, certain managers (who, in the first quarter of 2005, generated approximately 12 per cent of the Group's online casino-related revenues and approximately 24 per cent of the Group's online-poker related revenues) have entered into new service agreements pursuant to which their services will no longer be provided to the Group on a commission-based basis.

### **14. LOCK-IN AGREEMENTS**

Under the terms of lock-in agreements, the existing Shareholders have undertaken that, subject to certain limited exceptions and for a period of one year following Admission, they will not sell or otherwise dispose of, or agree to sell or dispose of, any of their interests in Ordinary Shares and

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thereafter, in order to preserve an orderly market, will only sell such Ordinary Shares through Numis (provided Numis continues to be the Company's broker and provides a certain level of service).

## **15. SHARE OPTION SCHEME**

The Directors believe that it will be important for the senior management, employees and certain key marketing agents of the Group to be incentivised through a suitable share option scheme. They believe that equity incentives provide a valuable tool in attracting, retaining and rewarding these categories of people. The Company has therefore established the Share Option Scheme, details of which are set out in paragraph 5 of Part V of this document.

It is the intention of the Directors to grant options to certain members of the senior management, employees and marketing agents shortly following Admission in respect of up to 14,524,603 new Ordinary Shares, in aggregate. In each case, the grant of options will be on terms determined by the Directors on the recommendation of the Company's remuneration committee in accordance with the terms of the Share Option Scheme. The Company has also agreed to grant Lord Steinberg an option over 114,285 new Ordinary Shares following Admission, pursuant to his letter of appointment as non-executive Chairman of the Company.

## **16. ADMISSION, SETTLEMENT AND CREST**

Application has been made to the London Stock Exchange for the Ordinary Shares to be admitted to trading on AIM. It is expected that Admission will take place and that dealings in the Ordinary Shares on AIM will commence at 8.00 a.m. on 15 June 2005.

With effect from Admission, CREST members will be able to hold and transfer interests in Ordinary Shares within CREST, pursuant to a depository interest arrangement established by the Company.

The Ordinary Shares will not themselves be admitted to CREST, rather Capita IRG Trustees Limited ("Capita Trustees"), a subsidiary of Capita IRG Plc, will issue Depository Interests in respect of the underlying Ordinary Shares. The Depository Interests will be independent securities constituted under English law which may be held and transferred through the CREST system. Depository Interests will have the same security code (ISIN) as the underlying Ordinary Shares and will not require a separate quotation on AIM. The Depository Interests will be created and issued pursuant to a deed poll entered into by Capita Trustees.

It will remain open to Shareholders, should they wish to do so, to hold Ordinary Shares in certificated form and Shareholders wishing to do so should contact the Company's Registrars, Capital IRG (Offshore) Limited.

## **17. CORPORATE GOVERNANCE**

The Company intends, where practicable for a company of its size and nature and with the exception of the Share Option Scheme, to comply with the principles of the Combined Code. To this end, the Board has established a remuneration committee, an audit committee and a nomination committee with formally delegated duties and responsibilities.

The audit committee will comprise the three non-executive Directors and will be chaired by Andrew Burns. The audit committee will receive and review reports from management and from the Company's auditors relating to the interim and annual accounts and to the internal control procedures in use throughout the Group. The audit committee will meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required.

The remuneration committee will comprise the three non-executive Directors and will be chaired by Lord Steinberg. The remuneration committee will review the scale and structure of the executive directors' remuneration and the terms of their service contracts. The remuneration and terms of appointment of the non-executive directors will be set by the Board. The remuneration committee will also approve the issue of share options except where options are being granted

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to a member of the committee, when such issue will be approved by the Board. The remuneration committee will meet at least twice a year and at such other times as the chairman of the committee may require.

The nomination committee will comprise the three non-executive Directors and will be chaired by Lord Steinberg. The nomination committee will meet at least twice a year and at such other times as the chairman of the committee may require and 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.

## **18. DIVIDEND POLICY**

It is the Directors' intention that the Company should pay dividends to Shareholders in respect of the year ending 31 December 2005 of approximately US\$30 million. It is intended that this will be paid as to one-third in respect of the six months ending 30 June 2005 and as to two-thirds in respect of the six months ending 31 December 2005. This dividend is not wholly related to the expected results of the Group's operations for the relevant periods and should not be interpreted as giving any indication or forecast of the results of the Group's operations for such periods. The declaration and payment by the Company of any future dividends on the Ordinary Shares will depend on the results of the Group's operations, its financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed to be relevant at the time.

## **19. TAXATION**

Information regarding taxation is set out in paragraphs 9 and 10 of Part V of this document. This information is, however, intended only as a general guide to the current tax position under UK and BVI tax law.

**Shareholders who are in any doubt as to their tax position or who are subject to tax in jurisdictions other than the UK or the BVI are strongly advised to consult their own independent financial adviser immediately.**

## **20. THE CITY CODE ON TAKEOVERS AND MERGERS**

The Company is not subject to the City Code on Takeovers and Mergers ("City Code") as, being incorporated in the BVI, it is not treated by the Takeover Panel as resident in the UK, the Channel Islands or the Isle of Man. As a result, neither a takeover of the Company nor certain stakebuilding activities of a Shareholder would be governed by the City Code.

The Company has adopted, subject to Admission, the Articles, which incorporate certain provisions which seek to provide Shareholders with certain protections otherwise ordinarily provided by the City Code.

These provisions, like others contained in the Articles, are enforceable by the Company (acting through the Directors) against Shareholders. However, the Company would need to take any action to enforce such provisions in the courts of the BVI without any guarantee that any such action would be successful or any certainty as to what the costs of doing so would be.

## **21. ADDITIONAL INFORMATION**

Prospective investors should carefully consider the additional information set out in the other parts of this document and in particular the risk factors set out in Part II of this document.



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## PART II

### RISK FACTORS

**An investment in the Company involves a high degree of risk. Accordingly, prospective investors should carefully consider the specific risk factors set out below in addition to the other information contained in this document before investing in Ordinary Shares. The Board considers the following risks to be the most significant for potential investors in the Company, but the risks listed do not necessarily comprise all those associated with an investment in the Company and are not set out in any particular order of priority.**

**If any of the following risks actually occur, the Group's business, financial condition, capital resources, results and/or future operations and prospects could be materially adversely affected. In such a case, the price of the Ordinary Shares could decline and investors may lose all or part of their investment.**

**Additional risks and uncertainties not currently known to the Board may also have an adverse effect on the Group's business and the information set out below does not purport to be an exhaustive summary of the risks affecting the Group.**

**An investment in the Ordinary Shares described in this document is speculative. Potential investors are accordingly advised to consult a person authorised for the purposes of the Financial Services and Markets Act 2000 who specialises in advising on investments of this kind or other appropriately authorised independent financial adviser if a potential investor is outside the UK before making any investment decisions. A prospective investor should consider carefully whether an investment in the Company is suitable in the light of his or her personal circumstances and the financial resources available to him or her.**

#### **1. Legislative and regulatory risks**

##### **1.1 *Online gaming***

The Group does not itself operate a gaming business but, as the Group's principal clients are online gaming operators, gaming legislation has a significant effect on the business of the Group (either directly or indirectly through its effect on the Group's clients' businesses), and in particular, the Group's marketing activities and the supply by it of gaming operators' software.

The Directors have taken legal advice with regard to the Group's activities in those countries which the Directors consider to be the principal countries of residence for the Group's existing registered players, namely the US, Canada, the UK, Denmark and Sweden. Investors should be aware that, for the purposes of this document, the Directors have not taken advice or made investigations in relation to the legal position as it relates to the Group's activities in jurisdictions where the Group has a lower level of customer numbers (i.e. accounting for less than 2 per cent of total revenue in the year ended 31 December 2004). However, in the course of carrying on its business, the Group does take legal advice in relation to such matters as and when the Directors believe it appropriate.

The gaming industry is prohibited or restricted in some countries and highly regulated in others. In a number of countries the legal position is subject to much debate and the position is uncertain. In general terms, it is possible that, subject to the courts in the relevant countries being able to establish jurisdiction, online gaming and the Group's activities in relation to it does or may constitute (in a manner and to a degree which varies between countries) a breach of the applicable criminal and/or civil legislation in the countries of residence of the Group's registered players. This may potentially expose the

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Company, other Group companies and/or their directors to fines and other sanctions (including imprisonment), the nature and magnitude of which the Directors are presently not able to estimate.

Furthermore, the Directors cannot predict when (or if) the regulatory or legislative regime in any such countries will change, what changes (if any) will be made and what effect (if any) such changes will have on the Group's activities. For example, it is possible that legislation in any relevant jurisdiction may make it illegal for players in that jurisdiction to participate in online gaming. There is also a possibility that a tax authority in a relevant jurisdiction could seek to contend that the profits which the Group generates in that jurisdiction could be subject to tax there by virtue of the on-line facilities constituting a permanent establishment, branch or agency in that jurisdiction. Investors should be aware that any such changes could have a material adverse effect on the Group's business, financial position and future prospects.

Any future legal proceedings against the Group relating to internet gaming could involve substantial litigation expense, penalties, fines, injunctions or other prohibitions being invoked against it or its directors and officers or others and the diversion of the attention of key executives. The outcome of any litigation cannot be predicted.

In relation to specific jurisdictions:

#### *United States*

The Company's most significant market is the United States. It is the current position of the US Department of Justice that online gaming is illegal in the United States under existing federal law. In addition, US federal law prohibits activities that use the means of interstate commerce to facilitate or promote unauthorized gambling, and federal courts have held with respect to other matters under US law that "means of interstate commerce" includes the internet. At a state level, the states in which the Company draws the majority of its US-based players make gambling and the promotion of gambling unlawful. Most of these state laws do not specifically apply to internet gaming, but some of these states are taking steps to affirmatively make such activity, including the marketing or promotion of internet gaming, unlawful. To date, to the knowledge of the Directors, there has been no successful criminal or civil action against an entirely offshore online gaming operator where there has been no US national ownership or management. It is the understanding of the Directors that there have been only a small number of legal actions brought against online gaming operators in the US, and most of these have been where the assets and personnel of the online gaming operator have been located in the US. Although Empire Online does not have any meaningful presence in the United States, nor are any of its servers that are used for sending marketing correspondence or gaming software to players, located there, the Company previously did have servers located in the US. These servers have recently been relocated to Europe. The Company has been advised that the mere relocation of the servers may not be sufficient to avoid jurisdiction should a US prosecutor decide to bring an action against the Company under US law.

The future of regulation of the online gaming industry in the United States is unclear. For the past several years, the US Congress has considered federal legislation which would impose civil and criminal penalties on online gaming operations for accepting credit card payments, electronic fund transfers and other banking instruments used to fund online gaming transactions from US residents. Such legislation would also direct US regulatory authorities to impose regulations that would prevent financial institutions regulated by US banking authorities or otherwise subject to US jurisdiction from processing wagers. The legislation has varied from session to session, but has yet to pass the US Congress and become law. An increase in participation in online gaming in the US has attracted significant

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attention and opponents continue to threaten to seek enactment of legislation at the state and federal levels barring online gaming or participation in online gaming activity in the US.

No guarantee can be given that the US authorities will not seek to prosecute offshore gaming operators, nor companies which promote them, and no prediction can be given as to the success of any such prosecutions. Any significant restriction on participation in, or marketing or promotion of, online gaming in the US would have a significant adverse effect on the Group's business, financial position and future prospects.

Because the activity of online gambling may be illegal in some states, debts incurred by players may be unenforceable under certain state laws, thus leading some credit card affiliates to refuse to allow players to open accounts with online bookmakers. As the result of a 1999 case in California by a bettor who accumulated online gaming debts and then successfully argued that she should not be responsible for such debts because the activity was illegal, Visa sent the following advisory message to its nationwide cardholders and merchant banks in the US: "Internet Gambling Advisory: internet gambling may be illegal in the jurisdiction in which you are located, including locations within the United States. Visa cards may only be used for legal transactions. Display of a payment card logo by an online merchant does not mean that internet gambling transactions are lawful in all jurisdictions in which the cardholder may be located."

On 7 April 2005, the World Trade Organisation (WTO) ruled that the United States had established that its laws prohibiting gambling are "necessary to protect public morals or maintain public order". The United States, however, failed to show that the prohibitions in its laws are applied equally to foreign and domestic remote gambling services, thereby contravening international trade rules. The WTO's ruling highlights the need for the US to clarify its policies on internet gambling and the purported extraterritorial application of its laws, although there can be no certainty as to how the US will make such clarification or that it will make such clarification at all.

There is therefore a risk that US authorities might seek to curb any participation by individuals in online gaming.

### *Canada*

Although there is no Canadian legislation specifically criminalising online gaming, Section 202 of the Criminal Code of Canada generally makes gambling illegal. The legislation is broad and prohibited activities include aiding and assisting illegal gambling activities. An offence under Section 202 can also incur severe financial penalties under the proceeds of crime provisions of the Criminal Code of Canada. Although the Canadian authorities have not actively prosecuted online gaming operations or their support organisations, in 1999 the Vancouver office of Starnet Communications International Inc. was raided and in 2001 this company was indicted under Section 202 of the Criminal Code of Canada for maintaining equipment used to run an online gaming operation. As part of a plea bargain arrangement, Starnet Communications pleaded guilty to a breach of Section 202 and incurred a substantial fine. Although Starnet Communications was also based in Antigua, it had a significant operation in Vancouver. It is unclear whether Section 202 of the Criminal Code of Canada could be used to prosecute an entirely offshore online gaming operator or gaming support business which has no physical presence in Canada, such as the Company.

Since the Starnet Communications prosecution, there has been no prosecution of any online gaming operator. However, bearing in mind that 'aiding and assisting' illegal gaming activities is an offence, it is possible that the legislation could catch the Group's activities. It is also possible that a more stringent application and enforcement of existing law could be introduced.

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### *United Kingdom*

On 7 April 2005, the UK Gambling Act 2005 (the "UK Act") was given Royal Assent. The UK Act introduces fundamental reforms of current gambling legislation, including online gaming. The UK Act envisages that a new single regulator, the "Gambling Commission", will be formed shortly and that the remaining provisions of the UK Act will come into force from the second half of 2005 onwards, with the full regime to be in place by the end of 2006.

All current legislation specifically relating to gambling, including online gaming, none of which the Directors believe applies to the Group's activities, will be repealed when the UK Act comes into force and most entities involved in the provision of gambling activities in the UK, including the Group, will be regulated by the Gambling Commission. The Gambling Commission will have comprehensive powers which are set out in the UK Act.

The UK Act makes provision for the licensing of online betting and gaming in the UK, which is defined as "remote gambling". However, the UK Act does not clearly specify what services and facilities will need to be licensed in the UK. There is, however, specific provision in the UK Act relating to the use of "remote gambling equipment", which is defined as including facilities for registration, payment and the hosting of a random number generator in connection with gambling businesses. Such definition is likely to include servers which host gaming websites or gaming software. An operator and/or supplier of such equipment will need to obtain a licence in the UK or relocate all of the remote gambling equipment used in connection with its licensed activities outside Great Britain.

The UK Act makes it an offence to supply, in the course of business, computer software for remote gambling unless a licence is held for such activity. As players can download gaming software from the Group's promoted websites (such as *empirepoker.com*), it is possible that the Company may need to obtain a licence, even though it neither owns nor can alter any of the gaming software to which it provides access. Whether the UK Act will be interpreted in such a way as to require the Company to obtain a licence for this reason is, at present, unclear. This part of the UK Act dealing with the supply of gaming software does not refer to any territorial application. Therefore, it is conceivable that it may apply to any person who, although having no physical presence in the UK, is deemed to supply gaming software from websites capable of being accessed in the UK.

All gambling operators with remote gaming equipment in the UK will have to obtain approvals and licences from the Gambling Commission. There can be no certainty that should such licences be required by a member of the Group, such member will be able to obtain such licences on terms which are adequate for the Company in respect of the Group's activities. The costs relating to such approvals and licences and ongoing compliance with the new regulatory framework are as yet unknown.

There are also provisions in the UK Act which restrict the ability to advertise in the UK unless the jurisdiction from which the gaming operator supplies its services is in the European Economic Area (which for these purposes specifically includes Gibraltar). Therefore, Empire Online will need to ensure that the operators it works with are based within the EEA (which, as WPC Productions and Cassava Enterprises are based in Gibraltar, is the case with the Company's main customers). It would also be unlawful for the Group to advertise any online gaming operator which is based in the UK and which does not have a licence. As the licensing regime is not yet in operation, there is no guarantee that, should the Group's key clients seek licences, they will be granted.

At this stage, the extent to which online gaming companies with UK activities will be affected either by the UK Act or the regulatory framework it will introduce, is not clear. In this regard, it should be noted that the UK Act proposes that the Secretary of State also be delegated broad additional powers, including the power to determine what constitutes

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remote communications equipment facilities. It is possible the Secretary of State will interpret such terms widely.

At this stage no proposals have been published by HM Treasury and/or HM Customs & Excise on the likely level of taxation that will be levied on UK licensed online gaming operators.

The Directors anticipate that the Group's UK business activities will be affected by the provisions of the UK Act when its provisions are fully implemented, either indirectly by affecting the gaming industry as a whole, or directly by requiring the Company to be fully licensed in the future.

#### *Rest of Europe*

In Europe, countries such as Denmark and Sweden attempt to restrict the actions of gamblers and aim to curtail the supply of gambling products and services by attempting to limit such supply to domestic operators, often with links to the local government.

In Sweden, as revenues from domestic lotteries (and for these purposes, card games and other casino games are deemed to be lotteries) are only permitted to be used for the benefit of the public, it is not possible for a private company to obtain a licence to operate an online gaming website. The Swedish Lottery Act applies to lotteries arranged in Sweden. The Swedish government recently considered amending the Lottery Act to prohibit foreign lotteries intended for participants in Sweden, but concluded that such a prohibition would be difficult to enforce. Since then, however, the Swedish government has announced that it intends to reconsider a possible ban on foreign online gaming businesses which operate in Sweden. Any resulting legislation may have an adverse impact on the business and operations of the Group.

Under the Swedish Lotteries Act, it is an offence in Sweden to promote a foreign operated gaming business. Promotion includes advertising in Swedish newspapers and magazines, placing banners on Swedish websites and running other similar advertising campaigns (the promotional activities undertaken by the Company to date would fall into this category). Accordingly, the Group is unable to undertake specific promotions in Sweden or to specifically target Swedish players and, as a result, the Group's ability to expand its activities in Sweden is restricted. The Directors have been advised that the operation of an online gaming business having no connection with Sweden, other than for the fact that its website can be accessed by Swedish nationals and residents via the internet, is not illegal. It is unclear whether a gaming operator or promoter based outside Sweden can be sued or incur penalties and sanctions in Sweden for arranging a promotional or awareness campaign for a gaming website. However, the risk of the Group being subject to such actions cannot be ruled out.

Under Danish law, any online gaming business (as well as any marketing or promotion of such business) aimed at the Danish market is illegal unless the business concerned has been granted a licence from the Danish Ministry of Taxation. The extent to which a website is assessed as targeting the Danish market depends on an overall assessment of the activities offered and the content of the website concerned. Websites not specifically targeting the Danish market (e.g. where the content is not in Danish, no payments and/or winnings are calculated in Danish Kroner no Danish language helpline is provided) will, in general, not be caught by the Danish prohibition provided the relevant websites are not hosted in Denmark. The Danish Gambling Board objected to the fact that one of the Group's websites was in Danish and so was deemed to be aimed at Danish players. The Company elected not to challenge this objection, despite receiving legal advice that it might be successful in a challenge, and removed all Danish language marketing material from this website. It is possible that the Danish Gambling Board or other relevant authority may make further

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objections to the Group's marketing activities in future. The Directors intend to take such steps as are required to ensure compliance with Danish law if any such objections arise.

It is possible that Cyprus, where the Group's operations are based, will introduce online gambling legislation in the next 12 months. To the extent that the Cypriot authorities do implement such legislation, the Company intends, to the extent it is required to do so, to comply with all aspects of such legislation.

Some enforcement action has been taken by European governments pursuant to regulations against gaming operators to attempt to prevent the supply of online gaming services to users in their jurisdictions. This has occurred in the Netherlands, for example, where the state monopoly provider has challenged the supply of online bookmaking and gambling to Dutch citizens by operators based in the UK. In one case, a UK operator has now successfully challenged the judgments against it in the lower Dutch courts, although the Dutch Government has not endorsed such judgments. The Directors cannot predict what actions may be initiated in other jurisdictions or, if they are initiated, their chances of success.

### **1.2 *Data protection laws and regulations***

Directive 95/46/EC of the European Parliament, covering the protection of individuals with regard to the processing of personal data and the free movement of such data, places limitations on the collection, use and re-use of personal information belonging to European residents or stored in Europe. Similar privacy legislation, such as the Gramm-Leach-Bliley Act in the US, is also applicable in relation to US residents. The ability to use player data is an important marketing tool for the Group and such data protection regulations restrict the Group's freedom to fully exploit this asset (as do any restrictions in the agreements with the relevant gaming operators).

The data privacy policies with those players which the Group has directed to the *empirepoker.com* site and its other promoted websites restrict the use of data held by the Group to activities necessary for the operation of the particular game the player has registered for. In relation to players registered since November 2001, the date when Cyprus implemented Directive 95/46/EC, the data cannot currently be used by the Group to market the games of other operators. To be able to use such data, the Group will be required to amend the data privacy policies agreed with such players to allow the Group to market alternative games and also seek amendments to the content of the websites used by the Group (which may also require the agreement of the relevant gaming operators). Such amendments will require the consent of such players. There is no guarantee that the players (or any of them) or the relevant gaming operators (to the extent required) will agree to such amendments. If they do not, the value of player data to the Group will be severely limited.

Although the Group seeks to take all necessary steps to secure the limited player data it holds, any ability of the Group to protect the privacy of its players could expose the Group to additional liability under the privacy legislation in Cyprus where the data is held.

Additional legislation may restrict further the Group's information gathering and disclosure practices. Existing and potential future privacy laws may limit the ability of the Group to develop new products and services which make use of data gathered by Empire Online. Technical violations of these laws can result in penalties being assessed for each non-compliant transaction.

### **1.3 *Other laws and regulations***

The application to the Group of existing laws and regulations relating to such issues as taxation, quality of services, electronic contracting, consumer protection and intellectual property ownership and infringement (to the extent that they relate to internet businesses)

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is unclear. In addition, the Group may become subject to new laws and regulations directly applicable to the Group's activities. Any new legislation applicable to the Group could expose it to substantial liability and expenses necessary to comply with these laws and regulations. There is a risk that criminal and civil proceedings, including class actions brought by or on behalf of public entities or private individuals, could be initiated against Empire Online, other members of the Group and their directors, and others involved in providing facilities to the internet gaming industry.

#### 1.4 *Taxation*

As a result of the rapid development of e-commerce, the taxation of e-commerce business is a relatively new area and is constantly being evaluated and developed by tax authorities around the world. There can be no guarantee that the tax authorities in jurisdictions from where the Group attracts players will not introduce legislation which may negatively impact the Group's tax position. Nor can there be any guarantee that the tax authorities in jurisdictions where the Group markets its services or in which the Group has servers located will not claim that the Group is liable to taxation in such jurisdictions. Were the Group to be found liable to taxation in any such jurisdiction, such liability would have an adverse effect on the Group's profits, financial position and future prospects.

It is unknown whether any ultimate European directive designed to harmonise tax will impact upon the way in which cross-border gaming transactions are taxed.

## 2. **Transactional and operational risks**

### 2.1 *Key gaming operators*

Empire Online's business is almost entirely dependent upon two online gaming operators, PartyGaming (which accounted for approximately 72 per cent of the Group's revenue for the year ended 31 December 2004) and Cassava Enterprises (which accounted for approximately 27 per cent of the Group's revenue for the year ended 31 December 2004), for which it provides marketing and promotional services. The agreement with Cassava Enterprises is terminable on short notice by either party for any reason. The agreement with PartyGaming (which is with its subsidiary, WPC Productions) in relation to *empirepoker.com* may be terminated by WPC Productions on short or no notice for a wide range of reasons, including disclosure of confidential information of WPC Productions, the insolvency of either party and reasons which are beyond the control of the Group, such as those which relate to the legal and regulatory environment within which the industry as a whole operates, or which result from the action of any of the Group's affiliates. Due to the uncertain nature of certain of the provisions contained in the contract with WPC Productions, there can be no assurance that WPC Productions could not seek to allege a breach of the agreement and to seek to terminate it for any of these reasons. The Directors are not aware of any current intention on the part of either Cassava or WPC Productions to terminate their respective agreements.

Should the agreement with WPC Productions or Cassava Enterprises be breached by them, the Company would have to sue such parties in the courts of the BVI and to enforce any resulting judgment in Gibraltar, where such operators are based, without any guarantee that any such action would be successful.

In the event of termination of the contract with Cassava, the Group will continue to be entitled to its percentage share of revenue generated by players introduced to Cassava's websites by the Group prior to such termination. In such circumstances, the Company would seek to enter into equivalent arrangements with one or more other online casino operators. The Group does not own any rights to the player data in respect of Cassava's website.

In the event of termination of the agreement with WPC Productions the revenue received by the Group in respect of such agreement might cease with immediate effect. In such

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circumstances, the Directors would expect to exercise the Company's option to acquire the *www.empirepoker.com* domain name. The Company would also seek to enter into arrangements with one or more alternative gaming operators with a view to directing players attracted by the Group to such alternative operators' websites (though the use of player data in respect of players registered on *empirepoker.com* is, and the use of the *empirepoker.com* brand may be, restricted or prevented after such termination). The Directors believe that this strategy would be achievable (although there can be no guarantee that this would be achieved or that existing players would re-register with such alternative operator(s)). Termination of the agreement with WPC Productions would be likely, at least in the short term, to have a material adverse effect on the Company's revenues.

## **2.2 *Reliance on third party systems***

The Company is reliant on its client gaming operators' systems to prevent collusion, fraud, under-age gaming, money laundering and other unacceptable and illegal activities by players. Failure of the system to put in place effective policies and procedures to prevent these activities by such operators may expose the Group to enforcement actions by relevant authorities and would be likely to have a material adverse impact on the reputation of the Group and consequently upon its revenues, profits and future prospects.

## **2.3 *Reliance on Tradal***

As the Group will be provided with a number of services by Tradal pursuant to a services agreement entered into as part of the Reorganisation, including the provision of the services of some key employees who are to be retained by Tradal until such time as they are able to obtain work permits in the name of the Company's Cypriot subsidiary, the Group is reliant on Tradal for the adequate provision of these services. In the event that these services are discontinued (either temporarily or permanently) there can be no guarantee that the Group will be able to obtain alternative suppliers of such services or provide such services itself and this may have a material adverse effect on the Group.

## **2.4 *Reliance on third parties regarding servers***

The Group depends on third parties for the hosting of data servers and for the physical security of its servers. The Group, through its suppliers, maintains a fully functional back-up site which should be operational in the event of failure of the main server site and should result in its services being available again within minutes of such failure. However, this downtime could result in increased costs and lost revenues which would be detrimental to the Group's business.

## **2.5 *Intellectual property***

The principal intellectual property rights of the Group are its domain names and rights to acquire domain names. The ownership and use of the player data relating to the websites which it promotes and the *empirepoker.com* brand are governed by the agreements with the relevant gaming operators as described in paragraph 2.1 above.

The Group has historically acquired a number of domain names which it utilises as a means of attracting new players. However, if the Group is unable to acquire or use a suitable domain name in the countries in which it operates, or into which it may seek to expand its operations, its ability to trade or compete effectively may be impaired. Whilst it is relatively easy to register a domain name, it does not follow that the Group is free to use its domain names in all jurisdictions in which it operates. It is possible that the Group's domain names could infringe a prior third party trade mark registration in certain jurisdictions or someone may have common law or other related rights (based on reputation in the name) which may prevent the Group from using its domain name. The global nature



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of the internet means competing or conflicting intellectual property rights can exist anywhere and are very difficult to monitor.

The Group intends to continue to acquire domain names as suitable opportunities arise. The acquisition and maintenance of domain names generally is regulated by applicable laws, as they are applied by the courts, government agencies and their designees and internet domain name regulatory bodies, and is subject to change. Internet domain name regulatory bodies may establish additional top level domains, appoint additional domain name registrars or modify the requirements for holding domain names.

The Company does not own the *www.empirepoker.com* domain name but it has an option to acquire it. Should this option, once exercised, not be honoured, it would be necessary to sue its registered owner in the courts of the BVI and to enforce any resulting judgment in Gibraltar, where Adventerex Enterprises Limited (the owner of the domain name) is based, without any guarantee that any such action would be successful. The exercise of the option to acquire this domain name would permit WPC Productions to terminate its agreement with the Company; the consequences of such termination are discussed more fully in paragraph 2.1 above.

#### **2.6 *Key personnel***

Empire Online's future success is dependent on the continued services and performance of its executive directors and senior management. The loss of key personnel or damage to their reputations could adversely affect relationships with strategic service providers, which would adversely affect the business of the Group. In particular, a number of the key personnel, including the executive directors, are subject to being called up by the Israeli army for reserve or other duty on short notice. Some are subject to regular army reserve duty each year.

#### **2.7 *Strong competition and a rapidly evolving market***

The Group's competitors may have longer operating histories and significantly greater financial, technical, marketing and other resources than the Group. The Group's competitors may respond to new or emerging technologies and changes in customer requirements faster and more effectively than the Group. The Group may, in response, be forced to lower its share of the revenues or agree other revenue sharing terms with gaming operators. In addition, there are several large operators (such as MGM and Harrahs) who are expected to enter the online gaming industry in the near future, which may adversely affect the growth opportunities for the Group.

#### **2.8 *Dependence upon the internet***

In order for Empire Online to be able to promote its services via the internet, the infrastructure of the internet must continue to be reliable. There can be no assurance that the infrastructure of the internet will be able to support the demands placed on it by the expected growth in internet usage. Predictions which have been made about growth in internet usage depend on a number of assumptions, for example, that consumer confidence in the internet will increase as a result of the adoption of new security protocols, or that the cost of access to the internet will be reduced. Given that the internet is dependent upon relations between a large number of third parties, there can be no assurance that it will develop in a satisfactory manner. Indeed, there can be no assurance that the internet's infrastructure will continue to be able to support the demands currently placed upon it. Any failure of the internet infrastructure to support these demands may have a material adverse impact on Empire Online's business. Equally, the growth in use of the internet by consumers for e-commerce purposes may not continue, or use of the internet may decline in the future.

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## 2.9 *Dependence on international payment processing systems*

Empire Online's client gaming operators are dependent upon payment processing systems provided by third parties such as FirePay, Neteller and credit and debit card operators. Any interference with the provision of these services, or the enactment of any legislation prohibiting the use of credit or debit cards and certain bank instruments for gaming transactions, as well as the tightening of money laundering regulations, may adversely affect the business of the Group's clients and consequently the Group's business. For example, since 2002 a number of North American credit card issuers have refused to allow the use of their credit cards for internet betting and gaming transactions (which had a material adverse effect on the Group's results at the time such policy was adopted), and it is possible that other card issuers might in the future adopt similar or even more stringent policies. In light of this, it may become more difficult for gamblers to deposit money in their online gaming accounts. In addition, foreign governments may seek to impede the online gaming industry by introducing legislation designed to prevent customers or financial institutions based in their respective jurisdictions from transferring money to online gaming operations or by seeking to impose a tax on such transfers.

## 2.10 *Technology failures*

The successful operation of the Group's business depends upon it and its client gaming operators maintaining the integrity and operation of its and their respective computer and communication systems. However, these systems and operations are vulnerable to damage or interruption from events which are beyond the Group's control such as:

- fire, flood and other natural disasters;
- power loss or telecommunications or data network failure;
- improper or negligent operation of the Group's or the client gaming operators' system by employees of the relevant party, or unauthorised physical or electronic access; and
- interruptions to internet system integrity generally as the result of attacks by computer hackers, viruses or other types of security breaches.

In addition, the operation and maintenance of the gaming operator's software is the sole responsibility of the relevant gaming operator and the Company can give no guarantee that such gaming operators will continue to maintain and operate their systems in an effective manner or that such operators have appropriate disaster recovery plans in place to deal with any damage or interruption to their systems.

Any such damage or interruption could impair the Group's ability to provide its services and result in significant disruption to the Group and its players and, consequently, the Group's revenues. This could be harmful to the Group's reputation and deter current or potential players from using the Group's services. There can be no guarantee that either the Group's or its client gaming operator's security measures will protect it from all breaches of security, and any such breach of security could have a material adverse effect on the operations, financial condition or reputation of the Group's businesses.

## 2.11 *International growth*

A key element of the Group's strategy involves expanding the Group's operations internationally. The Group cannot assure prospective investors that its international marketing efforts will be successful and that its services will achieve a broad enough international customer base to generate significant additional revenues.

The Group also faces other risks related to international expansion, including delays in the acceptance of the internet as a medium of commerce and gaming in international markets and difficulties in managing international operations due to distance, language and cultural

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differences. In addition, international expansion exposes the Group to risks associated with tariffs, trade barriers and limitations on fund transfers, exchange rate fluctuations and potential adverse tax consequences.

#### **2.12 *Inability to manage growth***

The Group intends to grow the business significantly. To support growth plans, the Group may need to expand existing management, operational, financial and human resources, customer service and management information systems and controls. The Group may be unable to manage growth successfully which could adversely affect the business.

The Group's expertise is principally in using online marketing techniques. There is no certainty that this existing expertise will be as effective in attracting new real money players through offline marketing techniques. It also takes longer to measure the results of offline marketing and can be more costly to implement.

#### **2.13 *Empire Online's operating results may fluctuate and may not necessarily be an accurate indicator of future performance. Variations in future performance could cause the share price to fluctuate and decline***

Although the Group has grown quickly, its results might fluctuate in the future as a result of a variety of factors, many of which are beyond the control of management. These factors might include:

- changes in pricing policies or those of competitors;
- expansion costs;
- relative rates of acquisition of new Empire Online players;
- seasonal patterns;
- delays in the introduction of new or enhanced services, software or related products by the Group or its competitors and market acceptance of these products and services; and
- other changes in operating expenses, personnel and general economic conditions.

As a result, period-to-period comparisons of operating results may not be meaningful and investors in the Company should not rely on them as an indication of future performance.

### **3. AIM and liquidity of the Ordinary Shares**

It may be more difficult for an investor to realise his or her investment in an AIM traded company than in a company the shares of which are listed on the Official List since an investment in shares traded on AIM is perceived to involve a higher degree of risk and be less liquid. AIM has been in existence since June 1995, but its future success and liquidity as a market for the Ordinary Shares cannot be guaranteed. The share price of publicly traded emerging companies can be highly volatile. The price at which the Ordinary Shares will be traded and the price at which investors may realise their investment will be influenced by a large number of factors, some specific to the Group and its operations and others which may affect quoted companies generally. These factors could include the performance of the Company, large purchases or sales of the Ordinary Shares, legislative changes and general economic, political or regulatory conditions. Prospective investors should be aware that the value of the Ordinary Shares could go down as well as up and that the market price of the Ordinary Shares may not reflect the underlying value of the Company. Investors may therefore not realise their original investment, especially as the market in the Ordinary Shares may have limited liquidity.

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#### **4. The City Code on Takeovers and Mergers**

The Articles will incorporate certain provisions which seek to provide Shareholders with certain protections otherwise ordinarily provided by the City Code. These provisions, like others contained in the Articles, are enforceable by the Company (acting through the Directors) against Shareholders. However, the Company would need to take any action to enforce such provisions in the courts of the BVI without any guarantee that any such action would be successful or certainty as to what the costs of doing so would be.

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## PART III

### ACCOUNTANTS' REPORT ON THE GROUP



**BDO Stoy Hayward  
Chartered Accountants**

**BDO Stoy Hayward LLP  
8 Baker Street  
London W1U 3LL**

The Directors  
Empire Online Limited  
Trident Chambers  
PO Box 146  
Road Town  
Tortola  
British Virgin Islands

10 June 2005

The Directors  
Numis Securities Limited  
Cheapside House  
138 Cheapside  
London EC2V 6LH

Dear Sirs

**EMPIRE ONLINE LIMITED (THE "COMPANY") AND CERTAIN OF THE TRADE AND ASSETS  
OF TRADAL LIMITED (TOGETHER, THE "GROUP")**

#### **Introduction**

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document dated 10 June 2005 of the Company (the "Admission Document").

The Company was incorporated as Clevedon Services Limited in the British Virgin Islands on 2 January 2002. It changed its name to Empire Online Limited on 5 May 2005.

#### **Basis of preparation**

Consolidated financial statements have never been prepared for the Group. The financial information in this report is an aggregation of the audited financial statements of the Company and certain of the trading results, cash flows and assets and liabilities of Tradal Limited for the three years ended 31 December 2004 and for the period ended 31 March 2005 (together, the "Relevant Period") after making such adjustments as we considered necessary.

The relevant trading results, cash flows and assets and liabilities of Tradal Limited have been extracted from the audited financial statements of Tradal Limited. The financial statements of the Company included a pharmaceuticals business, which was carried on by the Company during the period to 31 December 2003. This business was transferred to Tradal Limited on 1 January 2004, after which it was carried on by Tradal Limited for the fifteen months ended 31 March 2005 and included within its relevant financial statements. The trading results, cash flows and assets and liabilities associated with this pharmaceuticals business have been excluded from the aggregated financial information on the grounds that this business will not form part of the Group following admission to trading on the AIM market of the London Stock Exchange plc ("AIM") of the shares of the Company.

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BDO International Galaxias, Commercial Center, 4th Floor (Office 403), 33 Makarios III Ave & 36 Ayias Elenis Street, PO Box 22283, CY-1519 Nicosia, Cyprus were auditors to the Company and Tradal Limited for the year ended 31 December 2002. BDO Ioannou & Associates, Commercial Center, 4th Floor (Office 403), 33 Makarios III Ave & 36 Ayias Elenis Street, PO Box 22283, CY-1519 Nicosia, Cyprus were auditors to the Company and Tradal Limited for the year ended 31 December 2003.

BDO Stoy Hayward LLP, Chartered Accountants and Registered Auditors, 8 Baker Street, London, W1U 3LL, have been auditors to the Company and Tradal Limited for the remainder of the Relevant Period.

Each of the audit reports throughout the Relevant Period was unqualified.

### **Responsibility**

Such financial statements are the responsibility of the directors of the companies who approved their issue.

The directors of the Company are responsible for the contents of the Admission Document in which this report is included.

It is our responsibility to compile the aggregated financial information set out in our report from the audited financial statements, to form an opinion on the aggregated financial information and to report our opinion to you.

### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the aggregated financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the aggregated financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 aggregated financial information is free from material misstatement whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion, the aggregated financial information, for the purposes of the Admission Document, presents fairly in all material respects the financial position of the Group as at the dates stated and the results of its cash flows for the periods then ended in accordance with International Financial Reporting Standards ("IFRS").

## **AGGREGATED FINANCIAL INFORMATION**

### **Accounting policies**

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

(a) *Basis of preparation*

The audited financial statements of the Company and Tradal Limited have been prepared in accordance with IFRS, including International Accounting Standards ("IAS") and Interpretations, adopted by the International Accounting Standards Board ("IASB").

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This aggregation has been prepared from the audited financial statements and in respect of accounting policies and bases is in accordance with IFRS.

The financial statements of the Company and Tradal Limited have been prepared for the same reporting periods, using consistent accounting policies. The significant accounting policies applied in the financial statements of the Company and Tradal Limited in prior years are applied consistently in the aggregated financial information.

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

(b) *Basis of aggregation*

The assets and liabilities of Tradal Limited after the elimination of the excluded pharmaceuticals division are represented by a capital account in the aggregated financial information. The share capital and other reserves of Tradal Limited have been included within this capital account. The share capital, share premium and accumulated profits shown in the Group balance sheet relate to the Company only.

In addition to the elimination of the trading results, cash flows and assets and liabilities associated with the excluded pharmaceuticals business, certain other adjustments have been made to eliminate intercompany transactions and balances between the entities included within the aggregation.

Certain balances arising as at 31 December 2003, 31 December 2004 and 31 March 2005 as a result of the elimination of the assets and liabilities associated with the discontinued pharmaceuticals business have been written off to reserves in each of the years then ending.

(c) *Use of estimates*

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates.

(d) *Revenue*

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.

(e) *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).

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(f) *Taxation*

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

(g) *Property, plant and equipment*

Property, 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 rates are as follows:

Furniture, fixtures and equipment	-	10%-33%
Motor vehicles	-	25%

(h) *Intangible assets*

Intangible assets comprise website design costs and computer software and are stated at historic cost less accumulated amortisation. Carrying amounts are reviewed at each balance sheet date for impairment.

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%
Computer software	-	33%

(i) *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.

(j) *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.

(k) *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.

(l) *Current asset investments*

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as current asset investments and stated at their fair value.

Purchases and sales of investments are recognised on the date that the Company commits to purchase or sell the investment. Realised and unrealised gains and losses arising from changes in the fair value of current asset investments are included in the income statement in the year in which they arise.



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(m) *Trade and other payables*

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

(n) *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.

(o) *Financial instruments*

The carrying amounts of cash and cash equivalents, related parties, 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.

(p) *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.

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## Aggregated income statements

		<i>Year ended</i>	<i>Year ended</i>	<i>Year ended</i>	<i>Period ended</i>
		<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 March</i>
		<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>Note</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
<b>Net gaming revenue</b>	1	21,395	25,674	65,186	24,414
Cost of sales		(8,397)	(10,660)	(26,192)	(11,923)
<b>Gross profit</b>		<u>12,998</u>	<u>15,014</u>	<u>38,994</u>	<u>12,491</u>
Other income		199	22	-	-
Administrative expenses		(1,545)	(1,256)	(1,827)	(597)
<b>Operating profit</b>	2	<u>11,652</u>	<u>13,780</u>	<u>37,167</u>	<u>11,894</u>
Net finance income	3	57	16	531	489
<b>Profit before taxation</b>		<u>11,709</u>	<u>13,796</u>	<u>37,698</u>	<u>12,383</u>
Taxation	4	(15)	(8)	(16)	(8)
<b>Profit after taxation for the period</b>		<u>11,694</u>	<u>13,788</u>	<u>37,682</u>	<u>12,375</u>
Dividend	6	(19,727)	-	(5,004)	-
Retained (loss)/profit		<u>(8,033)</u>	<u>13,788</u>	<u>32,678</u>	<u>12,375</u>
<b>Earnings per share</b>	5				
Basic		<u>\$11,694,000</u>	<u>\$138</u>	<u>\$350</u>	<u>\$115</u>
Diluted		<u>\$11,694,000</u>	<u>\$138</u>	<u>\$350</u>	<u>\$115</u>

## Aggregated balance sheets

		<i>As at</i>	<i>As at</i>	<i>As at</i>	<i>As at</i>
	<i>Note</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 March</i>
		<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
		<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	7	125	87	170	193
Intangibles	8	41	63	852	790
		<u>166</u>	<u>150</u>	<u>1,022</u>	<u>983</u>
<b>Current assets</b>					
Trade and other receivables	9	1,706	8,880	25,043	47,206
Other current assets		101	104	–	–
Cash and cash equivalents	10	284	6,476	21,835	13,766
		<u>2,091</u>	<u>15,460</u>	<u>46,878</u>	<u>60,972</u>
<b>Total assets</b>		<u><u>2,257</u></u>	<u><u>15,610</u></u>	<u><u>47,900</u></u>	<u><u>61,955</u></u>
<b>Equity</b>					
Share capital	11	–	1	1	1
Share premium		–	–	604	604
Treasury shares		–	(445)	(445)	(445)
Capital account		964	10,619	13,688	18,290
Retained earnings		343	3,940	30,166	39,600
<b>Total equity</b>		<u>1,307</u>	<u>14,115</u>	<u>44,014</u>	<u>58,050</u>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	12	937	1,480	3,868	3,896
Short term borrowings	10	2	14	–	–
Current tax payable	13	11	1	18	9
<b>Total liabilities</b>		<u>950</u>	<u>1,495</u>	<u>3,886</u>	<u>3,905</u>
<b>Total equity and liabilities</b>		<u><u>2,257</u></u>	<u><u>15,610</u></u>	<u><u>47,900</u></u>	<u><u>61,955</u></u>

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### Aggregated statement of changes in equity

	Note	Share capital \$000	Share premium \$000	Treasury shares \$000	Capital account \$000	Accumulated profits \$000	Total \$000
<b>Balance at</b>							
<b>1 January 2002</b>							
Net profit for the year		-	-	-	9,390	-	9,390
Aggregation adjustment		-	-	-	(34)	-	(34)
Dividends paid	6	-	-	-	(19,727)	-	(19,727)
Purchase of interest in Tradal business		-	-	-	(20)	-	(20)
Dividend received on interest in Tradal business		-	-	-	4	-	4
<b>Balance at</b>							
<b>31 December 2002</b>							
Share capital issued		1	-	-	-	-	1
Net profit for the year		-	-	-	10,191	3,597	13,788
Aggregation adjustment		-	-	-	(96)	-	(96)
Purchase of interest in Tradal business		-	-	-	(445)	-	(445)
Proceeds from disposal of interest in Tradal business		-	-	-	5	-	5
Purchase of own shares		-	-	(445)	-	-	(445)
<b>Balance at</b>							
<b>31 December 2003</b>							
Share capital issued		-	604	-	-	-	604
Net profit for the year		-	-	-	11,456	26,226	37,682
Aggregation adjustment		-	-	-	(3,383)	-	(3,383)
Dividends paid	6	-	-	-	(5,004)	-	(5,004)
<b>Balance at</b>							
<b>31 December 2004</b>							
Net profit for the period		-	-	-	2,941	9,434	12,375
Aggregation adjustment		-	-	-	1,661	-	1,661
<b>Balance at</b>							
<b>31 March 2005</b>							
		1	604	(445)	18,290	39,600	58,050

The capital account represents the accumulated reserves associated with the assets and liabilities of Tradal Limited that will form part of the Group.

The aggregation adjustments reflect the required adjustments that arise on the elimination of certain assets and liabilities associated with the pharmaceuticals business included within the financial statements of the Company and Tradal Limited, but excluded from the aggregation, as noted in the Basis of Preparation.

The share capital issued in 2004 was called up and paid in the period ended 31 March 2005 (see note 11).

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## Aggregated statement of cash flows

	<i>Year ended 31 December 2002 \$000</i>	<i>Year ended 31 December 2003 \$000</i>	<i>Year ended 31 December 2004 \$000</i>	<i>Period ended 31 March 2005 \$000</i>
<b>Cash flows from operating activities</b>				
Profit before taxation	11,709	13,796	37,698	12,383
<b>Adjustments for</b>				
Depreciation and amortisation	177	152	317	144
Profit on sale of property, plant and equipment	(1)	(1)	-	-
Gains on current asset investments	(16)	(3)	-	-
Dividend income	(2)	(7)	-	-
Interest income	(88)	(72)	(625)	(497)
Interest expense	8	4	-	4
Non cash item: aggregation adjustments	-	(95)	(3,384)	1,661
	<u>78</u>	<u>(22)</u>	<u>(3,692)</u>	<u>1,312</u>
<b>Changes in working capital</b>				
Decrease/(increase) in trade and other receivables	3,742	(1,365)	855	(3,241)
(Decrease)/increase in trade and other payables	(2,141)	580	2,386	29
Taxation (paid)/received	(3)	(18)	1	(17)
(Increase)/decrease in trading investments	(86)	-	104	-
	<u>1,512</u>	<u>(803)</u>	<u>3,346</u>	<u>(3,229)</u>
<b>Net cash generated from operating activities</b>	<u>13,299</u>	<u>12,971</u>	<u>37,352</u>	<u>10,466</u>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	(39)	(31)	(152)	(37)
Purchase of intangible assets	(68)	(107)	(1,037)	(68)
Proceeds from sale of property, plant and equipment	1	3	-	-
Dividends income received	2	7	-	-
Interest income received	88	74	627	496
<b>Net cash used in investing activities</b>	<u>(16)</u>	<u>(54)</u>	<u>(562)</u>	<u>391</u>
<b>Cash flows from financing activities</b>				
Advance of loans to shareholders	-	(5,813)	(16,413)	(19,526)
Dividends paid	(19,687)	(36)	(5,004)	-
Proceeds from disposal of interest in Tradal business	-	5	-	-
Proceeds from issue of shares	-	1	-	604
Purchase of interest in Tradal business	(20)	(445)	-	-
Purchase of own shares	-	(445)	-	-
Interest paid	(8)	(4)	-	(4)
<b>Net cash used in financing activities</b>	<u>(19,715)</u>	<u>(6,737)</u>	<u>(21,417)</u>	<u>(18,926)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<u>(6,432)</u>	<u>6,180</u>	<u>15,373</u>	<u>(8,069)</u>
Cash and cash equivalents at the beginning of the year	<u>6,714</u>	<u>282</u>	<u>6,462</u>	<u>21,835</u>
<b>Cash and cash equivalents at the end of the period (note 10)</b>	<u><u>282</u></u>	<u><u>6,462</u></u>	<u><u>21,835</u></u>	<u><u>13,766</u></u>

## Notes to the aggregated financial information

### 1. Segment information

#### Business segment

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

	<i>Year ended</i> <i>31 December</i> <i>2002</i> <i>\$000</i>	<i>Year ended</i> <i>31 December</i> <i>2003</i> <i>\$000</i>	<i>Year ended</i> <i>31 December</i> <i>2004</i> <i>\$000</i>	<i>Period ended</i> <i>31 March</i> <i>2005</i> <i>\$000</i>
<i>Revenue by business segment</i>				
<b>Casino</b>				
Net gaming revenue	21,395	20,725	21,820	5,663
Segmental gross profit before marketing agents' costs	14,541	15,590	15,751	4,022
<b>Poker</b>				
Net gaming revenue	–	4,949	43,366	18,751
Segmental gross profit before marketing agents' costs	–	1,358	25,243	9,415
<b>Consolidated</b>				
Net gaming revenue	21,395	25,674	65,186	24,414
Gross profit before marketing agents' costs	14,541	16,948	40,994	13,437
Marketing agents' costs	(1,543)	(1,934)	(2,000)	(946)
Gross profit	12,998	15,014	38,994	12,491

The Directors consider that it is neither possible nor meaningful to distinguish aggregate marketing agents' costs or aggregated net assets between the two business segments.

#### Geographical segments

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

	<i>Year ended</i> <i>31 December</i> <i>2002</i> <i>\$000</i>	<i>Year ended</i> <i>31 December</i> <i>2003</i> <i>\$000</i>	<i>Year ended</i> <i>31 December</i> <i>2004</i> <i>\$000</i>	<i>Period ended</i> <i>31 March</i> <i>2005</i> <i>\$000</i>
<i>Revenue by geographical market</i>				
Europe	–	6,965	65,186	24,414
Rest of World	21,395	18,709	–	–
	21,395	25,674	65,186	24,414
<i>Gross profit by geographical market</i>				
Europe	–	4,930	38,994	12,491
Rest of World	12,998	10,084	–	–
	12,998	15,014	38,994	12,491

The Directors consider that it would not be meaningful to distinguish the aggregated net assets between the two geographical markets.

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## 2. *Operating profit*

	<i>Year ended 31 December 2002 \$000</i>	<i>Year ended 31 December 2003 \$000</i>	<i>Year ended 31 December 2004 \$000</i>	<i>Period ended 31 March 2005 \$000</i>
Operating profit is stated after charging:				
Staff costs	372	560	509	131
Directors' remuneration	6	4	-	-
Depreciation	107	67	70	14
Amortisation	70	84	249	130
Auditors' remuneration	26	25	48	42
Gain from sale of property, plant and equipment	(1)	(1)	-	-
Profit from sale of trading investments	(15)	-	-	-
Fair value gains from sale of trading investments	(1)	(3)	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

At 31 March 2005, the Group employed 27 staff (31 December 2004: 23; 2003: 18; 2002: 18). Included within these figures are certain of the Group's employees who are, and will remain, contractual employees of Tradal Limited who will provide services to the Group pursuant to a services agreement to be entered into between Tradal Limited and Poltroon Limited, a wholly owned subsidiary of the Company, in connection with the Reorganisation as described in the Admission Document. They perform, and will continue to perform, duties for the Group and have therefore not been excluded from the Group's employee numbers and results.

## 3. *Net finance income*

	<i>Year ended 31 December 2002 \$000</i>	<i>Year ended 31 December 2003 \$000</i>	<i>Year ended 31 December 2004 \$000</i>	<i>Period ended 31 March 2005 \$000</i>
Interest income	88	24	94	46
Exchange differences	15	5	(7)	6
Dividend income	2	7	-	-
Interest expense and other finance charges	(8)	(4)	(42)	(7)
Interest received on shareholder balances	-	48	531	451
Sundry finance expenses	(40)	(64)	(45)	(7)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	57	16	531	489

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#### 4. *Taxation*

	<i>Year ended 31 December 2002 \$000</i>	<i>Year ended 31 December 2003 \$000</i>	<i>Year ended 31 December 2004 \$000</i>	<i>Period ended 31 March 2005 \$000</i>
Corporate tax – current year	4	8	16	8
Corporate tax – prior years	11	–	–	–
	<u>15</u>	<u>8</u>	<u>16</u>	<u>8</u>

The Company is an international business company based in the British Virgin Islands and, under the laws of that country, is not subject to corporation tax. Corporation tax is calculated with reference to the profit of the Company's branch in Cyprus at a rate of 4.25 per cent.

#### 5. *Earnings per share*

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

There are no potentially dilutive shares in existence at any year or period end within the Relevant Period. Diluted earnings per share is calculated in the same manner as basic earnings per share.

	<i>Year ended 31 December 2002</i>	<i>Year ended 31 December 2003</i>	<i>Year ended 31 December 2004</i>	<i>Period ended 31 March 2005</i>
Net profit attributable to ordinary shareholders (\$000)	<u>11,694</u>	<u>13,788</u>	<u>37,682</u>	<u>12,375</u>
Weighted average number of ordinary shares (number)	<u>1</u>	<u>100,000</u>	<u>107,550</u>	<u>107,550</u>
Basic earnings per share (\$)	<u>11,694,000</u>	<u>138</u>	<u>350</u>	<u>115</u>
Diluted earnings per share (\$)	<u>11,694,000</u>	<u>138</u>	<u>350</u>	<u>115</u>

#### 6. *Dividends*

	<i>Year ended 31 December 2002 \$000</i>	<i>Year ended 31 December 2003 \$000</i>	<i>Year ended 31 December 2004 \$000</i>	<i>Period ended 31 March 2005 \$000</i>
Dividends paid	<u>19,727</u>	<u>–</u>	<u>5,004</u>	<u>–</u>

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7. *Property, plant and equipment*

	<i>Office furniture and equipment \$000</i>	<i>Motor vehicles \$000</i>	<i>Total \$000</i>
<b>Cost</b>			
As at 1 January 2002	315	47	362
Additions	39	–	39
Disposals	(2)	–	(2)
As at 31 December 2002	352	47	399
Additions	30	1	31
Disposals	(2)	(6)	(8)
As at 31 December 2003	380	42	422
Additions	70	83	153
As at 31 December 2004	450	125	575
Additions	37	–	37
As at 31 March 2005	487	125	612
<b>Accumulated depreciation</b>			
As at 1 January 2002	151	18	169
Charge for the year	95	12	107
Disposals	(2)	–	(2)
As at 31 December 2002	244	30	274
Charge for the year	57	10	67
Disposals	(2)	(4)	(6)
As at 31 December 2003	299	36	335
Charge for the year	44	26	70
As at 31 December 2004	343	62	405
Charge for the period	8	6	14
As at 31 March 2005	351	68	419
<b>Depreciated cost</b>			
As at 31 December 2002	108	17	125
As at 31 December 2003	81	6	87
As at 31 December 2004	107	63	170
As at 31 March 2005	136	57	193

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8. *Intangibles*

	<i>Website design costs \$000</i>	<i>Software \$000</i>	<i>Total \$000</i>
<b>Cost</b>			
As at 1 January 2002	141	38	179
Additions	65	2	67
As at 31 December 2002	<u>206</u>	<u>40</u>	<u>246</u>
Additions	54	52	106
As at 31 December 2003	<u>260</u>	<u>92</u>	<u>352</u>
Additions	1,032	6	1,038
As at 31 December 2004	<u>1,292</u>	<u>98</u>	<u>1,390</u>
Additions	24	44	68
As at 31 March 2005	<u>1,316</u>	<u>142</u>	<u>1,458</u>
<b>Accumulated depreciation</b>			
As at 1 January 2002	117	18	135
Charge for the year	56	14	70
As at 31 December 2002	<u>173</u>	<u>32</u>	<u>205</u>
Charge for the year	60	24	84
As at 31 December 2003	<u>233</u>	<u>56</u>	<u>289</u>
Charge for the year	229	20	249
As at 31 December 2004	<u>462</u>	<u>76</u>	<u>538</u>
Charge for the period	122	8	130
As at 31 March 2005	<u>584</u>	<u>84</u>	<u>668</u>
<b>Depreciated cost</b>			
As at 31 December 2002	<u>33</u>	<u>8</u>	<u>41</u>
As at 31 December 2003	<u>27</u>	<u>36</u>	<u>63</u>
As at 31 December 2004	<u>830</u>	<u>22</u>	<u>852</u>
As at 31 March 2005	<u>732</u>	<u>58</u>	<u>790</u>

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9. *Trade and other receivables*

	<i>As at 31 December 2002 \$000</i>	<i>As at 31 December 2003 \$000</i>	<i>As at 31 December 2004 \$000</i>	<i>As at 31 March 2005 \$000</i>
Trade receivables	1,442	3,018	2,120	5,324
Loans due from shareholders	–	5,813	22,830	41,752
Other debtors and prepayments	264	49	93	130
	<u>1,706</u>	<u>8,880</u>	<u>25,043</u>	<u>47,206</u>

Details of transactions with shareholders are detailed in note 14.

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

The loans from shareholders have attracted an interest charge of LIBOR + 1.5 per cent throughout the Relevant Period.

10. *Cash and cash equivalents*

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

	<i>As at 31 December 2002 \$000</i>	<i>As at 31 December 2003 \$000</i>	<i>As at 31 December 2004 \$000</i>	<i>As at 31 March 2005 \$000</i>
Cash and cash equivalents	284	6,476	21,835	13,766
Short term borrowings	(2)	(14)	–	–
	<u>282</u>	<u>6,462</u>	<u>21,835</u>	<u>13,766</u>

## 11. Shareholders' equity

Share capital comprises the following:

	<i>Allotted shares of \$1 each</i>		<i>Allotted shares of \$0.01 each</i>	
	<i>Number</i>	<i>Nominal value \$000</i>	<i>Number</i>	<i>Nominal value \$000</i>
As at 2 January 2002	-	-	-	-
Share capital issued	1	-	-	-
As at 31 December 2002	1	-	-	-
Share capital issued	-	-	100,000	1
Share capital cancelled	(1)	-	-	-
As at 31 December 2003	-	-	100,000	1
Share capital issued	-	-	7,550	-
At 31 December 2004 and 31 March 2005	-	-	107,550	1

During the Relevant Period, the Company made the following issues of shares:

<i>Date of issue</i>	<i>\$1 shares Number</i>	<i>\$0.01 shares Number</i>	<i>Nominal value \$000</i>	<i>Share premium arising \$000</i>
2 January 2002	1	-	-	-
22 May 2003	-	100,000	1	-
1 January 2004	-	7,550	-	604,000

The issues on 2 January 2002 and 22 May 2003 were called up and fully paid on those dates.

The issue agreed on 1 January 2004 was not called up or paid until 29 March 2005.

The authorised share capital throughout the Relevant Period was such that \$1 or \$0.01 shares may be issued to a maximum total nominal value of \$50,000.

## 12. Trade and other payables

	<i>As at 31 December 2002 \$000</i>	<i>As at 31 December 2003 \$000</i>	<i>As at 31 December 2004 \$000</i>	<i>As at 31 March 2005 \$000</i>
Trade payables	626	1,262	3,849	3,857
Dividends payable	36	-	-	-
Other payables and accrued expenses	275	218	19	39
	937	1,480	3,868	3,896

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

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13. *Current tax payable*

	<i>As at 31 December 2002 \$000</i>	<i>As at 31 December 2003 \$000</i>	<i>As at 31 December 2004 \$000</i>	<i>As at 31 March 2005 \$000</i>
Corporation tax	<u>11</u>	<u>1</u>	<u>18</u>	<u>9</u>

14. *Related party transactions*

	<i>As at 31 December 2002 \$000</i>	<i>As at 31 December 2003 \$000</i>	<i>As at 31 December 2004 \$000</i>	<i>As at 31 March 2005 \$000</i>
Owed by shareholders	<u>-</u>	<u>5,813</u>	<u>22,830</u>	<u>41,752</u>
Interest received on shareholder balances	<u>-</u>	<u>48</u>	<u>531</u>	<u>451</u>
Paid in respect of services*	<u>687</u>	<u>1,211</u>	<u>1,201</u>	<u>315</u>
Property rentals*	<u>32</u>	<u>49</u>	<u>49</u>	<u>12</u>

\* During the Relevant Period, the Group paid for the services of three members of key management either directly to them or to companies to which they are related, namely, Groverton Management Limited, Mainstar International Limited, and Bordalesa Investments Inc. In addition, the Group paid the rental of properties in which these members of key management reside.

15. *Commitments and contingencies*

*Lease commitments*

Future minimum lease commitments under property operating leases:

	<i>As at 31 December 2002 \$000</i>	<i>As at 31 December 2003 \$000</i>	<i>As at 31 December 2004 \$000</i>	<i>As at 31 March 2005 \$000</i>
Less than one year	42	50	69	66
More than one year and not more than five years	<u>-</u>	<u>-</u>	<u>69</u>	<u>49</u>
	<u>42</u>	<u>50</u>	<u>138</u>	<u>115</u>

The amount paid in respect of property operating leases during the period ended 31 March 2005 was \$37,000 (year ended 31 December 2004: \$135,000, 2003: \$105,000, 2002: \$36,000).

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16. *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.

Yours faithfully

**BDO Stoy Hayward LLP**  
*Chartered Accountants*

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**PART IV**

**UNAUDITED PRO FORMA STATEMENT OF NET ASSETS  
OF THE GROUP**

The following unaudited pro forma statement of net assets of the Group following the Placing and Reorganisation has been prepared for illustrative purposes only to provide information about the impact of the Placing and Reorganisation on the Group and, because of its nature, may not give a true reflection of the financial position of the Group. It has been prepared on the basis that the Placing and Reorganisation were undertaken as at 31 March 2005 and on the basis set out in the notes:

	<i>Group as at 31 March 2005 (note 1) \$000</i>	<i>Adjustments</i>			<i>Pro forma net assets of the Group \$000</i>
		<i>Placing Proceeds (note 2) \$000</i>	<i>Reorganisation (note 3) \$000</i>	<i>Dividend (note 4) \$000</i>	
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	193	-	-	-	193
Intangibles	790	-	156,710	-	157,500
	<u>983</u>	<u>-</u>	<u>156,710</u>	<u>-</u>	<u>157,693</u>
<b>Current assets</b>					
Trade and other receivables	47,206	-	-	(32,043)	15,163
Cash and cash equivalents	13,766	208,832	(175,000)	(7,000)	40,598
	<u>60,972</u>	<u>208,832</u>	<u>(175,000)</u>	<u>(39,043)</u>	<u>55,761</u>
<b>Total assets</b>	<u>61,955</u>	<u>208,832</u>	<u>(18,290)</u>	<u>(39,043)</u>	<u>213,454</u>
<b>Liabilities</b>					
Trade and other payables	3,896	-	-	-	3,896
Current tax payable	9	-	-	-	9
<b>Total liabilities</b>	<u>3,905</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,905</u>
<b>Net assets</b>	<u>58,050</u>	<u>208,832</u>	<u>(18,290)</u>	<u>(39,043)</u>	<u>209,549</u>

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**Notes:**

The pro forma statement of net assets has been prepared on the following basis:

1. The net assets of the Group as at 31 March 2005 have been extracted from the Accountants' Report set out in Part III of this document.

**Adjustments:**

2. Proceeds from the Placing represents gross proceeds of approximately US\$222.250 million (from the placing of 70,555,556 shares at £1.75 per share) less expenses of approximately US\$13.4 million.
3. Intangible assets have been adjusted to reflect an estimate of the goodwill that arises as a result of the acquisition of certain of the trade and assets of Tradal Limited. This has been calculated as follows:

	<i>\$000</i>
Consideration	175,000
Net assets acquired at 31 March 2005	(18,290)
Pro forma goodwill	<u>156,710</u>

The consideration of approximately US\$175 million represents an immediate cash payment.

Net assets acquired are based on the value of the capital account of the Group at 31 March 2005 as shown in the Accountants' Report set out in Part III of this document. The capital account represents the accumulated reserves associated with the assets and liabilities of Tradal Limited that will form part of the Group.

The final calculation of goodwill will reflect the assets and liabilities acquired from Tradal Limited at the actual date of acquisition, including any fair value adjustments. The above calculation is based on the book values of certain of the assets and liabilities of Tradal Limited at 31 March 2005. Any difference between the fair market value of the actual net assets acquired as at the date of acquisition and the book value of such net assets shown above will alter the calculation of goodwill and may be material. No account has been taken of any fair value adjustments that may be made to the net assets of Tradal Limited.

4. On 9 June 2005, the Company declared dividends totalling \$39m, representing \$363.02 per share. Of the total amount declared, \$7m was paid in cash and the balance of \$32m was applied to settle outstanding shareholder loan balances.
5. No adjustments have been made to reflect the trading results of the Group since 31 March 2005.





**BDO Stoy Hayward LLP**  
**8 Baker Street**  
**London W1U 3LL**

**BDO Stoy Hayward**  
**Chartered Accountants**

The Directors  
Empire Online Limited  
Trident Chambers  
PO Box 146  
Road Town  
Tortola  
British Virgin Islands

10 June 2005

The Directors  
Numis Securities Limited  
Cheapside House  
138 Cheapside  
London EC2V 6LH

Dear Sirs

**EMPIRE ONLINE LIMITED (THE “COMPANY”) AND CERTAIN OF THE TRADE AND ASSETS OF TRADAL LIMITED (TOGETHER, THE “GROUP”) UNAUDITED PRO FORMA STATEMENT OF NET ASSETS**

We report on the unaudited pro forma statement of net assets set out in Part IV of the admission document dated 10 June 2005 of the Company (“Admission Document”), which has been prepared, for illustrative purposes only, to provide information about how the Placing and Reorganisation (as such terms are defined in the Admission Document) might have affected the financial information presented.

**Responsibilities**

It is the responsibility solely of the directors of Empire Online Limited (“Directors”) to prepare the unaudited pro forma statement of net assets.

It is our responsibility to form an opinion on the unaudited pro forma statement of net assets and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma statement of net assets beyond that owed to those to whom we addressed those reports at the date of their issue.

**Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board.

Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma statement of net assets with the Directors.

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**Opinion**

In our opinion:

- (a) the unaudited pro forma statement of net assets has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the issuer; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma statement of net assets.

Yours faithfully

**BDO Stoy Hayward LLP**  
*Chartered Accountants*

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## PART V

### ADDITIONAL INFORMATION

#### 1. Incorporation and status of the Company

- 1.1 The Company was incorporated as an international business company and registered in the 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 legislation under which the Company operates is the BVI Act.
- 1.3 The registered office and head office of the Company is located at Trident Chambers, PO Box 146, Road Town, Tortola, British Virgin Islands.
- 1.4 The Company has the two following wholly-owned subsidiaries:
  - Poltroon Limited, a company incorporated in Cyprus on 7 April 2005 with registered number HE 154577. The directors are Yossef Pereg and Christos Sideras. The registered office of the company is Ayias Elenis, 36, Galaxias Building, 4th Floor, Office 404, P.C. 1061 Nicosia, Cyprus.
  - Empire Online Limited, a company incorporated in England and Wales on 13 October 2004 with registered number 5258060. The sole director is Yossef Pereg. The registered office of the company is Lacon House, 84 Theobald's Road, London WC1X 8RW. This subsidiary company is a dormant, non-trading company.

#### 2. The Directors

The Existing Directors and Proposed Directors of the Company are:

<i>Name</i>	<i>Function</i>
Lord Leonard Steinberg	Non-Executive Chairman (proposed)
Noam Lanir	Chief Executive Officer
Yossef Pereg	Chief Financial Officer and Chief Operating Officer
Andrew Rae Burns	Non-Executive Director (proposed)
Richard Barry Rosenberg	Non-Executive Director

Further details of the Directors are set out in paragraph 12 of Part I of this document.

#### 3. Share and loan capital

- 3.1 The authorised share capital of the Company on incorporation was US\$50,000 divided into 50,000 ordinary shares of US\$1 each. Upon incorporation, one bearer share of US\$1 was issued. This bearer share was redeemed and cancelled on 9 June 2005.
- 3.2 Since the date of incorporation of the Company, there have been the following changes in the authorised and issued share capital of the Company:
  - 3.2.1 On 22 May 2003, the authorised share capital of US\$50,000 was divided into 49,000 shares of US\$1.00 each and 100,000 shares of US\$0.01 each. On the same date 100,000 shares of US\$0.01 each were issued fully paid.
  - 3.2.2 On 23 February 2004, the authorised share capital was reclassified and divided into 100 class A preferred redeemable shares of US\$1.00 each, 48,900 class B shares of US\$1.00 each, and 100,000 common shares of US\$0.01 each.

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- 3.2.3 On 29 March 2005 the authorised share capital was reclassified and divided into 5,000,000 common shares of US\$0.01 each. On the same date, 7,550 common shares of US\$0.01 were issued fully paid.
- 3.3 Immediately prior to Admission (and prior to the resolutions referred to in paragraph 3.5 below becoming effective), the Company's issued share capital will be US\$1,075.50 comprising 107,550 common shares of US\$0.01 each.
- 3.4 As at the date of this document, all the unissued shares of the Company are at the disposal of the Directors, who may issue such shares at such times and for such consideration and generally on such terms as conditions may determine, unless previously revoked or varied by the Company in general meeting.
- 3.5 By written resolutions of the Existing Directors and the existing Shareholders dated 9 June 2005, conditional upon Admission and subject to the filing of the Articles at the BVI Registry of Corporate Affairs:
- 3.5.1 the Articles, summarised in paragraph 4 below, were adopted;
- 3.5.2 each issued and authorised but unissued common share of US\$0.01 in the capital of the Company will be converted and reclassified as 2,066.222427 Ordinary Shares, each of no par value;
- 3.5.3 the Company's memorandum of association will be amended so that the Company shall have no authorised share capital but shall have the power to issue up to 1,000,000,000 Ordinary Shares, each of no par value (subject to rights of pre-emption on issues of shares);
- 3.5.4 the Directors will generally and unconditionally be authorised pursuant to the Articles to allot up to an aggregate amount of 184,738,887 Ordinary Shares, such authority to expire, unless sooner revoked or varied by the Company in general meeting, on 9 September 2006, but so as to enable the Company before such date to make offers or agreements which would or might require relevant securities to be allotted after such date and to enable the Directors to allot relevant securities in pursuance of such offers or agreements as if the authority conferred thereby had not expired, such authority to be in substitution (with effect from Admission) for all existing authorities granted to the Directors in respect of the allotment of relevant securities; and
- 3.5.5 the Directors will be empowered until 9 September 2006 to allot Ordinary Shares for cash in accordance with the Articles otherwise than in accordance with the pre-emption provisions contained in the Articles, such power being limited to (a) the allotment of Ordinary Shares pursuant to the Placing, the Share Option Scheme (as described in paragraph 15 of Part I of this document) and the option granted to Numis described in paragraph 8.2 below; (b) the allotment of Ordinary Shares in connection with an issue or offer by way of rights in favour of holders of Ordinary Shares and any other person entitled to participate in such issue or offering where the Ordinary Shares respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective numbers 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 deem fit to deal with fractional entitlements or problems arising under the laws of any overseas territory or the requirements of any regulatory authority or any stock exchange; and (c) the allotment (other than pursuant to the power referred to in paragraphs (a) and (b) above) of Ordinary Shares up to an aggregate amount of 14,638,888 Ordinary Shares (representing approximately 5 per cent of the allotted and fully paid up share capital immediately following Admission).
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- 3.6 Upon the written resolutions referred to in paragraph 3.5 above coming into effect, the Company will have no authorised share capital but will have power to issue up to 184,738,887 Ordinary Shares, each of no par value. The issued fully paid share capital of the Company immediately following Admission will be as follows:

<i>Class of shares</i>	<i>Issued (fully paid)</i>
Ordinary Shares	292,777,772

- 3.7 Save as disclosed in this Part V, no commissions, discounts, brokerages or other special terms have been granted by the Company or any of its subsidiaries in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries in the three years immediately preceding the date of this document.
- 3.8 Application has been made for the Ordinary Shares to be admitted to trading on AIM. The Ordinary Shares are not listed or traded on, and no application has been or is being made for the admission of the Ordinary Shares to listing or trading on, any other stock exchange or securities market.
- 3.9 It is proposed that on Admission, Ordinary Shares may be delivered, held and settled in CREST by means of the creation of dematerialised Depository Interests representing such Ordinary Shares. Pursuant to a method proposed by CRESTCo under which transactions in international securities may be settled through the CREST system, Capita IRG Trustees Limited, a subsidiary of Capita IRG PLC, will issue the Depository Interests. These Depository Interests will be independent securities constituted under English law which may be held and transferred through the CREST system.
- 3.10 70,555,556 Ordinary Shares are being issued pursuant to the Placing at a price of 175 pence per Ordinary Share. As the Ordinary Shares have no par value, such portion of the Placing Price as determined by the Directors represents premium. No expenses are being charged to any subscriber for the Placing Shares.
- 3.11 Save in connection with the Placing, the grant of options pursuant to the Share Option Scheme, options to be issued to the non-executive Directors pursuant to the terms of their letters of appointment, and the option exercisable by Numis to acquire Ordinary Shares referred to in paragraph 8 below, there is no present intention to issue any share or loan capital in the Company (or options to acquire the same) following Admission.
- 3.12 Save as referred to in this document, no shares in the capital of the Company are under option or have been agreed, conditionally or unconditionally, to be put under option.
- 3.13 Immediately following Admission the Company will have 707,222,228 authorised but unissued Ordinary Shares.

#### **4. Memorandum and articles of association**

##### **4.1 *Memorandum of Association***

The Memorandum of Association of the Company provides, *inter alia*, that:

- (i) subject to 4.1(ii) below, the object of the Company is to engage in any acts or activities, which are not prohibited under any law for the time being in force in the BVI;
  - (ii) the Company shall not do any of the following: (a) carry on business with persons resident in the BVI; (b) own an interest in real property in the BVI other than a lease of a property for use as an office; (c) carry on a banking or trust business; (d) carry on business as an insurance or re-insurance company, insurance agent or insurance broker, unless it is licensed under an enactment authority to carry on that business; (e) carry on the business of company management unless licensed under the BVI Company Management Act 1990; or (f) carry on the business of providing the registered office or the registered agent for companies incorporated in the BVI;
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- (iii) the liability of the members of the Company is limited;
  - (iv) the directors shall by resolution have the power to issue any class or series of shares that the Company is authorised to issue in its capital, original or increased, with or subject to any designation, powers, inferences, limitations and restrictions; and
  - (v) the Company may amend its Memorandum of Association and the Articles by special resolution.

#### 4.2 *Articles of Association*

The Articles provide, *inter alia*, that:

##### 4.2.1 *Voting*

Votes may be given either personally or by proxy. Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands every member present in person and every proxy shall have one vote, and on a poll every member shall have one vote for every share carrying voting rights of which he is the holder.

Where there are joint holders the vote as tendered by the senior holder, as determined by the order in which the names stand in the register, shall be accepted to the exclusion of other joint holders.

##### 4.2.2 *Variation of class rights*

Whenever the authorised capital of the Company is divided into different classes of shares, the rights attached to any class may, whether or not the Company is being wound up, be varied or abrogated with the consent in writing of the holders of three-fourths in number of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class. The quorum at any such separate general meeting, other than an adjourned meeting, shall be two persons holding or representing by proxy at least one-third of the total number of the issued shares of the class in question and the quorum at an adjourned meeting shall be those persons holding shares of the class in question present in person or by proxy. Any holders of shares of that class present in person or by proxy may demand a poll.

Unless otherwise expressly provided by the rights attached to any shares, the rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

##### 4.2.3 *Alteration of Share Capital*

The Company may from time to time by ordinary resolution:

- (a) increase or reduce its authorised capital and in connection therewith the Company may in respect of any unissued shares increase or reduce the number of such shares, increase or reduce the par value of any such shares or effect any combination of the foregoing;
- (b) divide the shares, including issued shares, of a class or series into a larger number of shares of the same class or series; or
- (c) combine the shares, including issued shares, of a class or series into a smaller number of shares of the same class or series,

provided, however, that where shares are divided or combined under (a) and (c) above, the aggregate par value of the new shares must be equal to the aggregate par value of the original shares.

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#### 4.2.4 *Authority to Allot Shares and Rights of Pre-emption on Issue of Shares*

The provisions of the Articles empower the Company to offer, allot and issue any unissued Ordinary Shares at such time and for such consideration and upon such terms and conditions as the Board shall determine to the extent authorised by an ordinary resolution of the Company in general meeting.

All unissued shares of the Company shall, before being offered to any person, whether or not such person is already a Shareholder, be offered to the Shareholders in proportion as nearly as may be to the number of the existing shares held by them respectively, unless the Company in general meeting by special resolution otherwise directs. Exceptions to this right of pre-emption similar to those under the Companies Act 1985 (as amended) of the UK (the “UK Companies Act”) are set out in the Articles.

#### 4.2.5 *Transfer of Shares*

Subject to the provisions of the BVI Act, any member may transfer all or any of his certificated shares by instrument of transfer in any usual form or in such other form as the Board may approve. Such instrument must be executed on behalf of the transferor and the transferee but need not be under seal. The transferor is deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of it.

Title to any shares (or to any interests in any shares) in uncertificated form may also be evidenced and transferred in accordance with the rules of a relevant system for holding and transferring shares (or interests in shares) in uncertificated form. The directors shall have the power to implement any arrangements they think fit for such evidencing and transfer which accord with such relevant system and in particular shall where they consider it appropriate be entitled to disapply, vary or amend all or any part of the provisions in the Articles with respect to the requirement for written instruments of transfer and share certificates or where such provisions are inconsistent with such statutory regulations as aforesaid, in order to give effect to such regulations.

The Board may refuse to register any transfer of a share unless:

- (i) it is in respect of only one class of shares;
- (ii) it is in favour of not more than four joint transferees;
- (iii) it is duly stamped (if so required); and
- (iv) it is lodged at the registered office for the time being of the Company or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer by a recognized person (as defined in the Articles) where a certificate has not been issued) by such evidence as the Board may reasonably require to prove the title of the transferor or person renouncing and the due execution of the transfer or renunciation by him or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so.

#### 4.2.6 *Dividends*

Subject to the provisions of the BVI Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the directors.

The Board may, before recommending any dividend, set aside out of the profits of the Company such sums as they think proper as a reserve fund or funds which shall, at the discretion of the directors, be applicable for any purpose to which the profits of

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the Company may be properly applied. The directors may employ the amounts in the business of the Company or invest the same in such securities as it may select. The directors may also carry forward any profits which they may think it expedient not to distribute.

Any resolutions declaring a dividend may direct payment of such dividend or bonus wholly or partly by the distribution of specific assets and, in particular, of paid up shares, debentures or other securities in any other company or in anyone or more of such ways. The directors may make all such valuations, adjustments and arrangements and issue all certificates or documents of title as may seem to be expedient with a view to facilitating the distribution and may vest assets in trustees on trust for the persons entitled to the dividend as may seem to the directors to be expedient. Where any difficulty arises in respect of such distribution, the Board may settle it as it thinks expedient, and in particular may issue fractional certificates or authorize any person to sell and transfer any fractions or may ignore fractions altogether.

No unpaid dividend, or other amount payable in respect of a share, bears interest as against the Company unless otherwise provided by the rights attached to the share.

#### 4.2.7 *General Meetings*

The Company shall hold in each year a general meeting as its annual general meeting in addition to any other meeting in that year and shall specify the meeting as such in the notices calling it.

All meetings of members other than annual general meetings shall be called general meetings. The directors may convene a general meeting whenever they think fit. All general meetings, including the annual general meeting, shall be held in the United Kingdom.

The directors must convene a general meeting on receipt of a requisition in accordance with the BVI Act or, in default, a general meeting may be convened by such requisitionists, as provided by the BVI Act. If at any time there are not sufficient directors capable of acting to form a quorum of the Board, any director or any one member may convene a meeting in the same manner as nearly as possible as that in which meetings may be convened by the directors. In the case of a general meeting convened on a requisition or by requisitionists, no business other than that stated in the requisition or proposed by the Board shall be transacted.

#### 4.2.8 *Directors*

The number of directors shall not be less than two and there shall be no maximum number of directors. The Company may by ordinary resolution from time to time amend the Articles to vary the minimum or maximum number of directors.

Each director shall retire from office at the third annual general meeting after that at which he was last elected. There shall be no retirement from being a director on account of age.

A director who retires at an annual general meeting, whether by rotation or otherwise, may, if willing to act, be reappointed. If he is not reappointed, he may retain office until the meeting appoints someone else in his place, or if it does not do so, until the end of the meeting.

The Company may by ordinary resolution remove a director before the expiration of his period of office.



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#### 4.2.9 *Remuneration of Directors*

The remuneration of a director appointed to hold employment or executive office in accordance with the Articles may be a fixed sum of money or in whole or in part by participation in profits or otherwise as the Board may determine and may be in addition to or instead of a fee payable to him for his services under the Articles.

If any director shall be called upon to perform extra services which, in the opinion of the directors, are outside the scope of the ordinary duties of a director, the Company may remunerate such director either by a fixed sum or by a percentage of profits or otherwise as the Board may determine.

The directors are entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by them in the performance of their duties as directors.

#### 4.2.10 *Share Qualification*

A director shall not require a share qualification but shall (whether he holds shares or not) nevertheless be entitled to attend and speak at general meetings and class meetings.

#### 4.2.11 *Borrowing Power of Directors*

Subject to the BVI Act, the directors may exercise all the powers of the Company to borrow money.

#### 4.2.12 *Directors' interests and restriction on Directors' voting*

The Articles have incorporated the following provisions of the UK Companies Act: section 317 (1)-(4), 317(8), 317(9) (which relate to a director's duty to disclose interests in contracts); section 318 (1), (2), (3), (5), (6), (7), (10) and (11) (which relate to the requirements for director's service contracts to be open to inspection); sections 319 (1), (2), (3), (5), (6) and (7) (which relate to director's service contracts being longer than 5 years); section 320 (1) (which relates to substantial property transactions involving directors); section 324 (1), (2) and (6) (which relate to a director's duty to disclose shareholdings in a company); and section 325 (which relates to the requirement to maintain a register of directors' interests).

Save as otherwise provided by the Articles, a director shall not vote in respect of any contract, arrangement, transaction or proposal to which the Company is a party and in which he has any material interest otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company. A director shall not be counted in the quorum present at a meeting in relation to any such resolution on which he is not entitled to vote.

Notwithstanding the above, a director shall be entitled to vote (and be counted in the quorum) in respect of any resolutions concerning any of the following matters, namely:

- (a) the giving of any security, guarantee or indemnity to him in respect of money lent by or obligations incurred by him at the request of or for the benefit of the Company or any subsidiary;
- (b) the giving of any security, guarantee or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;
- (c) a contract, arrangement, transaction or proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its Group

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for subscription or purchase in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the director is to participate;

- (d) a contract, arrangement, transaction or proposal to which the Company is or is to be a party concerning any other company in which he is interested directly or indirectly and whether as an officer or shareholder or otherwise (“relevant company”), if he is not, directly or indirectly, the holder of or beneficially interested in one per cent or more of a class of equity share capital of the relevant company (calculated exclusive of any shares of that class in that relevant company held as treasury shares) or of the voting rights available to members of the relevant company or able to cause one per cent or more of those voting rights to be cast at his direction (shares held by a director as bare or custodian trustee and in which he has no beneficial interest, shares comprised in a trust and in which the director’s interest is in reversion or is in remainder, if and so long as another person is entitled to receive the income from the trust, and shares comprised in an authorised unit trust scheme in which the director is interested only as a unit holder are disregarded);
- (e) a contract, arrangement, transaction or proposal concerning the adoption, modification or operation of a pension, superannuation or similar scheme or retirement, death or disability benefits scheme or personal pension plan or employees’ share scheme under which he may benefit and which has been approved by or is subject to and conditional on approval of a relevant tax authority for taxation purposes or which does not accord to any director as such any privilege or benefit not accorded to the employees to whom the scheme or fund relates;
- (f) a contract, arrangement, transaction or proposal for the benefit of employees of the Group under which the director benefits in a similar manner to the employees and which does not accord to any director as such any privilege or benefit not accorded to the employees to whom it relates; or
- (g) a contract, arrangement, transaction or proposal concerning the maintenance or purchase of any insurance policy which the Company is empowered to purchase and/or maintain for the benefit of directors or for the benefit of persons including directors.

If a question arises at a meeting of directors or of a committee of directors as to the materiality of a director’s interest or as to the right of any director to vote or to be counted in a quorum and such question is not resolved by his voluntarily agreeing to abstain from voting, such question may be decided by a resolution of the remaining directors or committee members present at the meeting and, in the case of an equality of votes, the chairman (unless he is the director the materiality of whose interest or entitlement to vote is in issue) shall have a second or casting vote which shall be conclusive and binding.

#### 4.2.13 *Indemnity*

Subject to the BVI Act and without prejudice to any indemnity to which he may otherwise be entitled, every director, secretary, manager or other officer of the Company or auditor shall be entitled to be indemnified by the Company against all costs, charges, losses, expenses and liabilities incurred by him in the execution and discharge of his duties or the exercise of his powers, authorities and discretions, including any liability incurred by him in defending any proceedings, civil or criminal, which relate to anything done or omitted or alleged to have been done or omitted

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by him as an officer or employee of the Company and in which judgment is given in his favour or the proceedings are otherwise disposed of without any finding or admission of any material breach of duty on his part or in which he is acquitted or in connection with any application in which relief is granted to him by the court from liability in respect of negligence, default, breach of duty or breach of trust, in relation to the affairs of the Company.

#### 4.2.14 *Disclosure of Interests in Shares*

The Articles incorporate the following provisions of the UK Companies Act: section 198; section 199(1), (2), (3), (4) and (5); section 200; and section 200 to 203 (inclusive), which relate to the obligation of Shareholders to disclose interests in shares. The Articles incorporate section 212 of the UK Companies Act, which relates to the Company's power to investigate the identity of persons interested in the Company's shares.

#### 4.2.15 *Capitalisation of Profits*

Subject to the BVI Act, the directors may, with the authority of an ordinary resolution of the Company:

- (a) resolve to capitalise the excess (if any) of the total assets of the Company over the aggregate of its total liabilities, as shown in its books of account, plus the Company's issued share capital ("Surplus") and appropriate the sum resolved to be capitalised to the members in proportion to the number of Ordinary Shares held by them respectively and to apply that sum on their behalf either in or towards paying up the amounts (if any) for the time being to be paid in satisfaction of the amount due under any promissory note or other written obligation for payment of a debt, as consideration for the shares held by such members respectively or in paying up in full unissued shares, debentures of the Company of a nominal amount equal to such sum and allot such shares or debentures, paid up, to and amongst such members in those proportions or partly in one way and partly in the other;
- (b) make any arrangements it thinks fit to resolve a difficulty arising in the distribution of a capitalized reserve and, in particular, where shares or debentures become distributable in fractions, the directors may deal with the fractions as they think fit, including by the issue of certificates in respect of fractional entitlements, disregarding fractions or selling shares or debentures representing the fractions to a person for the best price reasonably obtainable and distributing the net proceeds of the sale in due proportion amongst the members (except that if the amount due to a member is less than three US dollars (US\$3), or such other amount as the directors may decide, the amount may be retained for the benefit of the Company);
- (c) authorise a person to enter into, on behalf of all the members concerned, an agreement with the Company providing for either the allotment to the members, paid up, of shares or debentures to which they may be entitled on the capitalisation or the payment by the Company on behalf of the members, by applying their respective proportions of the reserves resolved to be capitalised, of the amounts remaining unpaid on their existing shares. An agreement entered into under the relevant article is effective and binding on all affected members; and
- (d) generally do all acts and things required to give effect to the resolution.

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#### 4.2.16 *Distribution on Winding Up*

The power of sale of a liquidator shall include a power to sell wholly or partially for shares or debentures, or other obligations of another company, either then already constituted or about to be constituted, for the purposes of carrying out the sale.

If the Company shall be wound up voluntarily, the liquidator may, with the authority of an extraordinary resolution and any sanction required by law, divide among the members (excluding any members holding shares as treasury shares) in kind the whole or any part of the assets of the Company and whether or not the assets consist of property of one kind or of different kinds and may for this purpose set such value as he deems fair on any class or classes of property and may determine on the basis of that valuation and in accordance with the then existing rights of members how such division shall be carried out as between the members or different classes of members. The liquidator may, with the same authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit but so that no member shall be compelled to accept any asset in respect of which there is a liability or potential liability.

#### 4.2.17 *Take-over Offers for the Company*

No person must without making an offer to all Shareholders on matching terms:

- (i) acting by himself or with persons determined by the Board to be acting in concert, acquire shares, which carry 30 per cent or more of the voting rights attributable to the shares; or
- (ii) acting by himself or with persons determined by the Board to be acting in concert, hold 30 per cent but not more than 50 per cent of the voting rights, and acquire, by himself or with persons determined by the Board to be acting in concert, additional shares which, taken together with the shares held by the persons determined by the Board to be acting in concert with him, increase his voting rights, except as a result of a “permitted acquisition” (meaning an acquisition either consented to by the Board, or made in compliance with certain provisions which broadly replicate Rule 9 of the City Code, or arising from the repayment of a stock borrowing arrangement); or
- (iii) effect or purport to effect an acquisition which would breach or not comply with certain provisions which broadly replicate Rules 4 and 5 of the City Code, if the Company were subject to the City Code.

### **5. Share Option Scheme**

- 5.1 The Company’s remuneration committee (the “Committee”) is responsible for administering the Share Option Scheme. Options to acquire the Shares in the Company may be granted under the Share Option Scheme to any employee or director of the Group or any key marketing agent of the Group. The first grant of options under the Share Option Scheme may be made within 42 days following the adoption of the Scheme by the Company. Thereafter, options may be granted within 42 days following the announcement of the Company’s interim and/or final results for any period. In exceptional circumstances, options may be granted at other times.
- 5.2 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 date of grant. The options will not be subject to any performance criteria.

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- 5.3 The terms of each grant, including the number of options, will be determined by the Board on a case by case basis on the recommendation of the Committee. The number of Ordinary Shares issued or issuable (or transferred or transferable from treasury) pursuant to options granted under the Share Option Scheme when aggregated with the number of Ordinary Shares issued or issuable (or transferred or transferable from treasury) under all other employee share plans adopted by the Company in the 10 years following Admission may not exceed 5 per cent of the Company's issued ordinary share capital at the date of grant.
- 5.4 An option will normally become exercisable in three equal tranches, on the first, second and third anniversaries of the date of grant. Options will normally lapse on cessation of employment and will lapse ten years after the date of grant. Exercise of options will be permitted where employment has ceased in certain circumstances such as retirement, disability or death. In the event of a change of control of the Company, the Committee may, at its absolute discretion, determine that all subsisting options vest. Alternatively, the options may be exchanged for options over the acquiring company. On certain variations of the ordinary share capital of the Company, the directors may adjust the exercise price, class and the number of Ordinary Shares subject to subsisting options. Benefits derived under the Share Option Scheme are not pensionable.
- 5.5 The Committee may amend the Share Option Scheme from time to time at its absolute discretion provided that amendment to certain important rules (including those relating to the overall limit on the Share Option Scheme, the individual limit and the eligibility to participate in the Share Option Scheme) to the advantage of participants may only be made with the sanction of the Company in general meeting (except that Shareholder approval is not required for minor amendments to benefit the administration of the Share Option Scheme to obtain or maintain favourable tax, exchange control or regulatory treatment for participants, future participants or for participating companies).
- 5.6 The Share Option Scheme will terminate ten years after it is adopted by the Company, or earlier in certain circumstances.

## 6. Details of Directors and Directors' interests

- 6.1 As at the date of this document, the interests of the Directors (all of which are beneficial unless otherwise stated) and (so far as is known to the Directors or could with reasonable diligence be ascertained by them) persons connected with the Directors within the meaning of section 346 of the UK Act (a "connected person") in the issued share capital of the Company and which, if the Company were subject to the UK Act, would be required to be notified to the Company pursuant to sections 324 and 328 of the UK Act or shown in the register maintained under section 325 of the UK Act), and as these interests are expected to be immediately after Admission, are as follows:

	<i>As at 9 June 2005</i>		<i>Immediately Following Admission</i>	
	<i>Number of common shares of US\$0.01</i>	<i>Percentage of issued share capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital</i>
Noam Lanir	30,380	28.2%	62,771,837	21.4%
Yossi Pereg	3,430	3.2%	7,087,142	2.4%

*Notes:*

Noam Lanir is interested in his shares by virtue of the fact that he owns directly or indirectly all of the issued share capital of Groverton Management Limited.

Yossi Pereg is interested in his shares by virtue of the fact that he owns directly all of the issued share capital of Mainstar International Limited.

6.2 In addition to the interests of directors disclosed in paragraph 6.1 above, the Company is aware of the following persons who at the date of this document have, and who are expected on Admission to have, an interest in 3 per cent or more of the issued share capital of the Company:

	<i>As at 9 June 2005</i>		<i>Immediately Following Admission</i>	
	<i>Number of common shares of US\$0.01</i>	<i>Percentage of issued share capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital</i>
Awen International Corp	27,630	25.7%	57,089,725	19.5%
Sidmore Holdings Ltd	21,168	19.7%	43,737,796	14.9%
Glisson Inc	8,846	8.2%	18,277,803	6.2%
Strong Trading Corp	5,915	5.5%	12,221,705	4.2%
Face Ltd	4,000	3.7%	not notifiable	<3.0%
Tradal Ltd	3,765	3.5%	not notifiable	<3.0%

6.3 Save as disclosed in paragraphs 6.1 and 6.2 above, the Company is not aware of any person who will, immediately following Admission, be 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.

6.4 Save as disclosed in paragraph 6.1 above, 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.

6.5 The table below states the names of all companies, other than the Company, and partnerships of which the Directors have been a director or partner at any time during the period of five years immediately preceding the date of this document. Where the company or partnership is marked with an asterisk the Director concerned is no longer at the date of this document a director or partner (as the case may be) of the relevant company or partnership.

<i>Name of director</i>	<i>Current directorships and partnerships</i>	<i>Past directorships and partnerships</i>
Lord Leonard Steinberg	Stanley Leisure Plc British Casino Association Limited Wilbraham Road (Manchester) Trust Limited	Stanley Casinos Limited Stanley Racing Limited
Noam Lanir	Rintal Limited Cyberpro Limited Jackson Broom Limited	
Yossi Pereg	Empire Online Limited (UK subsidiary) Poltroon Limited	
Andrew Burns	ARB 2003 Limited Detox Lab Limited Lifeglow Limited Inflexion PLC	Luminar PLC Luminar Leisure Limited Sheffield Dancing and Investments PLC Intercede 1485 Limited Charles Carpenter Limited Electric Garden Leisure Limited Fife Indmar Trustees Limited Fife Group PLC Hanover One Limited Hanover Four Limited

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<i>Name of director</i>	<i>Current directorships and partnerships</i>	<i>Past directorships and partnerships</i>
Andrew Burns <i>(continued)</i>		James Hamilton & Sons (Engineering) Limited Shawlands Leisure Limited Tayside Taverns Limited The Fife Forge Company Limited Unicorn Holdings Limited Unicorn Leisure Limited Unicorn Leisure (Fife) Limited Unicorn Leisure (Kingston) Limited Unicorn Leisure (South) Limited Barnsley Dancing and Investments Limited The Chelsea Brewery Company Limited Britannia Leisure Limited The Jam House Limited Tivoli Developments (Buckley) Limited Toolfirst Limited Burnley Dancing and Investments PLC Torquay Dancing and Investments PLC Tucker's Smokehouse Limited Cannock Dancing & Investments PLC Voodooroom Limited Chicago Rock Café Limited W T Seymour Limited Worthing Dancing & Investments PLC Candu Entertainment Limited
Richard Rosenberg	17 Brompton Square Limited Carl Kendall-Palmer Limited Devonshire Registrars Limited Keiser Beratung (UK) Ltd Lexington Promotions Limited Portland Registrars Limited SRLV Limited SRLV Employment Services Limited SRLV Financial Services Limited SRLV Sports Promotions Limited Teenage Cancer Trust Valefox Limited Wheeler's of St James's Limited	Bernheimer Old Masters Limited P & D Colnaghi (Old Masters Trading) Limited The Berkeley Collection Limited Herm Trust Limited Hugedisc Limited

**6.6 None of the Directors:**

- 6.6.1 has any unspent convictions in relation to any indictable offences; or
- 6.6.2 has been the subject of any public criticism by any statutory or regulatory authority;  
or
- 6.6.3 has been a director of a company at the time of, or within the preceding 12 months  
of, that company being the subject of a receivership, compulsory liquidation, creditors'  
voluntary liquidation, administration, company voluntary arrangement or where it has  
made any composition or arrangement with its creditors generally or any class of its  
creditors; or

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6.6.4 has been a partner of a partnership at the time of, or within the preceding 12 months of, the partnership being the subject of a compulsory liquidation, administration or partnership voluntary arrangement nor in that time have the assets of any such partnership been the subject of a receivership; or

6.6.5 has had his assets been the subject of any receivership or has been a partner of a partnership at the time of or within 12 months preceding any assets thereof being the subject of a receivership; or

6.6.6 has been bankrupt nor made at any time an individual voluntary arrangement; or

6.6.7 has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

## **7. Directors' service agreements, letters of appointment and remuneration**

7.1 Each of the executive Directors and his related company (as referred to in the note to the table in paragraph 6.1 above) ("related company") has entered into a service agreement with the Company conditional on Admission. Details of the service agreement (including service fee) are set out below:

<i>Director</i>	<i>Date of agreement</i>	<i>Service fee per annum</i>
Noam Lanir	10 June 2005	US\$400,000
Yossef Pereg	10 June 2005	US\$225,000

Each executive Director and/or related company is also entitled to a bonus of up to an amount equal to his annual service fee on achievement of certain performance targets set by the remuneration committee from time to time.

The agreements with both Mr Lanir and Mr Pereg (and their respective related companies) are terminable by either party on 12 months' notice. The service fees are subject to annual review by the remuneration committee but there is no contractual entitlement to any increase in the service fees. The Directors are required to work such time as is required for the proper performance of their duties.

The following benefits are also granted to each of Mr Lanir and Mr Pereg under the terms of their service agreements:

- the provision of a flat and associated expenses in Limassol, Cyprus;
- the provision of a company car;
- 15 business days' holiday in the first year following Admission, increasing by one week per year thereafter up to a maximum of 30 business days. In addition he is to receive public holidays and Jewish religious holidays;
- private medical insurance for him and his family;
- disability insurance of 75 per cent of service fee; and
- four times life insurance cover.

Each of the executive Directors is subject to:

- Confidentiality obligations preventing the Director from using or disclosing confidential information either during the Directors' employment or after termination for as long as such information remains confidential.
- Intellectual property provisions which provide for any intellectual property created by the Director which arises out of his employment to be the property of the Company.
- Restrictive covenants in favour of the Company for the period of his employment and for 6 months following cessation of his employment which prevent the Director from





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- 8.3 The Company will pay certain other costs and expenses (including any applicable VAT) of, or incidental to, the Placing including all fees and expenses payable in connection with Admission, expenses of the Registrars, printing and advertising expenses, postage and all other legal, accounting and other professional fees and expenses.
- 8.4 The Placing Agreement contains customary representations, warranties and indemnities given by the Company, certain of the existing Shareholders and the Directors to Numis as to the accuracy of the information contained in this document and other matters relating to the Group and its business which, in the cases of such Shareholders and Directors, are subject to maximum amounts and time limits within which claims must be made. Numis is entitled to terminate the Placing Agreement in certain specified circumstances prior to Admission.
- 8.5 Under lock-in agreements dated 10 June 2005, the existing Shareholders have each agreed:
- 8.5.1 not to sell (and to use their reasonable endeavours to procure that their Associates (within the meaning of the AIM Rules) will not sell) or otherwise dispose of Ordinary Shares held by them following Admission for a period of 12 months after Admission; and
- 8.5.2 only to dispose (and to use their reasonable endeavours to procure that their Associates (within the meaning of the AIM Rules) will only dispose) of Ordinary Shares through Numis either for the period of 12 months following the period referred to in paragraph 8.5.1 above or for such period in which Numis remains the Company's broker, whichever is the shorter;
- 8.5.3 the restrictions referred to in paragraphs 8.5.1 and 8.5.2 above do not apply:
- in the event of the death of the relevant shareholder;
  - in the event of an intervening court order;
  - in the event of a takeover of the Company becoming unconditional in all respects;
  - to the acceptance of an offer, or the giving of an undertaking to accept an offer, made for all of the issued, and to be issued, capital of the Company which has been recommended by the directors of the Company or which has become unconditional in all respects;
  - to transfers of Ordinary Shares to shareholders of the shareholder concerned or beneficiaries or other trustees of which the relevant shareholder is a trustee and for which it holds its Ordinary Shares;
  - to a renunciation of rights to subscribe the shares or failure to take up such rights;
  - to disposals of shares in connection with an offer by the Company to purchase its own shares which is made on identical terms to all holders of shares and otherwise complies with the BVI Act.

## 9. UK Taxation

- 9.1 The following information is based upon the law and practice in the United Kingdom. The information sets out the advice received by the Directors about the current taxation position of Shareholders who are resident or ordinarily resident in the UK for taxation purposes in respect of their holdings of Ordinary Shares in the capital of the Company and who hold their Shares as investments. The statements below are intended only as a general guide and do not constitute advice to any Shareholder on his or her personal tax position and may not apply to certain classes of investor (such as dealers, charities or pension providers). Levels of taxation may change from time and time. **Any person who is in any**

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**doubt as to his or her tax position, or who may be subject to tax in any other jurisdiction should consult his or her appropriate independent professional adviser.**

**9.2 *Capital gains taxation***

If you sell all or any of the Ordinary Shares you acquire, you may, depending on your particular circumstances, incur a liability to taxation on capital gains. An individual who is UK resident or ordinarily resident, but who is non-UK domiciled, will not pay capital gains tax on the proceeds of sale of Ordinary Shares except to the extent that the proceeds are received in the UK. Dealings in the Company's shares on AIM may give rise to profits "received" in the UK which would therefore be taxable in the hands of a non-UK domiciled individual.

**9.3 *Stamp duty and stamp duty reserve tax***

No stamp duty or stamp duty reserve tax will be payable on the issue of Ordinary Shares pursuant to the Placing, except possibly in the case of issue to a depository and/or clearance scheme. The issue of depository interests in respect of the underlying Ordinary Shares will not be subject to stamp duty or stamp duty reserve tax so long as the Company's share register is held outside the UK. Subsequent transfers may qualify for an exemption from stamp duty reserve tax for UK depository interests in foreign securities, provided that the conditions for the exemption are met. Any further dealings in these Shares will be subject to stamp duty in the normal way at the rate of 50p per £100 or part thereof (subject to a minimum of £5) on the value of the consideration for the relevant transfer and rounded up to the next multiple of £5.

**9.4 *Dividends***

**9.4.1 *Taxation of Individual and Other Non-Corporate Shareholders***

Shareholders will receive income distributions from the Company without deduction of withholding tax. Dividends payable by the Company to individual shareholders domiciled and resident in the UK will be subject to UK income tax at the applicable rate depending upon the individual's circumstances. Dividends payable by the Company to individual shareholders resident but not domiciled in the UK will generally not be subject to UK income tax unless remitted to the UK.

**9.4.2 *Taxation of Corporate Shareholders***

UK resident corporate shareholders will normally be subject to corporation tax on the full amount of dividend income received from the Company.

**9.5 This taxation summary is intended only as a general guide to the current position under United Kingdom taxation law. It assumes that the Shareholder is resident in the United Kingdom for United Kingdom taxation purposes and is not a share dealer or charity or other person with special tax status. If you are in any doubt as to your tax position you should consult an appropriate independent professional adviser immediately.**

**10. BVI Tax**

**10.1** The Company is exempt from all forms of taxation in the BVI and all dividends, interests, rents, royalties, compensations and other amounts paid by the Company to persons who are not persons resident in the BVI are exempt from all forms of taxation in the BVI and any capital gains realized with respect to any shares, debt obligations, or other securities of the Company by persons who are not persons resident in the BVI are exempt from all forms of taxation in the BVI.





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- 14.9 Save as disclosed in this document, there are no investments by the Group in progress which are significant.
- 14.10 Save as disclosed in this document, the Directors are not aware of any exceptional factors which have influenced the Group's recent activities.
- 14.11 There are no arrangements in place under which future dividends are to be waived or agreed to be waived.
- 14.12 The Placing Price is payable in full in cash on acceptance.
- 14.13 Other than the current application for Admission, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made or refused nor are there intended to be any other arrangements for dealings in the Ordinary Shares.

### **15. Documents available for Inspection**

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the offices of Nabarro Nathanson, Lacon House, 84 Theobald's Road, London WC1X 8RW (Reference: RHB) for a period of 14 days from the date of this document:

- 15.1 the Memorandum of Association of the Company and the Articles;
- 15.2 the report by BDO set out in Part III of this document;
- 15.3 the rules of the Share Option Scheme;
- 15.4 the service agreements and letters of appointment referred to in paragraph 7 above;
- 15.5 the material contracts referred to in paragraph 11 above; and
- 15.6 the letters of consent referred to in paragraph 14.3 and 14.4 above.

### **16. Availability of Admission Document**

Copies of this document will be available to the public during normal business hours on any weekday (Saturdays and public holidays excepted) free of charge from the offices of Nabarro Nathanson, Lacon House, 84 Theobald's Road, London WC1X 8RW (Reference: RHB) and shall remain available for at least one month after the date of Admission.

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## **PART VI**

### **TERMS AND CONDITIONS OF THE PLACING**

#### **1. Introduction**

These terms and conditions apply to persons making an offer to subscribe for Placing Shares under the Placing (which may include Numis or its nominee(s)).

Each person to whom these conditions apply, as described above, who confirms his agreement to Numis (on behalf of itself and the Company) to subscribe for Placing Shares (an "Investor") hereby agrees with each of Numis and the Company to be bound by these terms and conditions as being the terms and conditions upon which Placing Shares will be subscribed under the Placing. An Investor shall, without limitation, become so bound if Numis confirms to the Investor its allocation. Following such confirmation, each Investor undertakes to promptly return a completed form of confirmation in the form supplied by Numis (the "Form of Confirmation").

#### **2. Agreement to purchase Ordinary Shares**

Conditional on (i) Admission occurring and the Placing Agreement not having lapsed or been terminated in each case on or prior to 15 June 2005 (or such later date as Numis and the Company may agree (not being later than 22 June 2005)) and (ii) the confirmation mentioned under paragraph 1 above, an Investor agrees to subscribe for, as more particularly described below, at the Placing Price, the number of Placing Shares allocated to such Investor under the Placing in accordance with the arrangements described in Part I of this document. To the fullest extent permitted by law, each Investor acknowledges and agrees that it will not be entitled to exercise any remedy of rescission at any time. This does not affect any other rights such Investor may have.

#### **3. Payment for Ordinary Shares**

Each Investor undertakes to pay the Placing Price for the Placing Shares subscribed for by such Investor in such manner as shall be directed by Numis. Liability for stamp duty and stamp duty reserve tax is as described in paragraph 9 of Part V this document.

In the event of any failure by any Investor to pay as so directed by Numis, the relevant Investor shall be deemed hereby to have appointed Numis or any nominee of Numis to use its reasonable endeavours to sell (in one or more transactions) any or all of the Placing Shares in respect of which payment shall not have been made as directed by Numis and to indemnify Numis on demand in respect of any liability for stamp duty and/or stamp duty reserve tax arising in respect of any such sale or sales. A sale of all or any of such Placing Shares shall not release the relevant Investor from its obligation to make such payment for Placing Shares to the extent that Numis or its nominee has failed to sell such Placing Shares at a consideration which after deduction of the expenses of such sale and payment of stamp duty and/or stamp duty reserve tax as aforementioned exceeds the Placing Price per Placing Share.

#### **4. Representations and Warranties**

By receiving this document and making the confirmation in paragraph 1 above each Investor confirms, represents, warrants and undertakes to Numis (for Numis and on behalf of the Company) on the terms and subject to the conditions set out in this document:

- (i) that the exercise by Numis of any rights or discretion under the Placing Agreement shall be within the absolute discretion of Numis and Numis need not have any reference to the Investor and shall have no liability to the Investor whatsoever in connection with any decision to exercise or not to exercise any such right. Each Investor agrees that they have no rights against Numis, the Company and any of their respective directors and employees under the Placing Agreement pursuant to the Contracts (Rights of Third Parties) Act 1999;

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- (ii) in agreeing to subscribe for Placing Shares under the Placing, each Investor is relying on this document and not on any information or representation or warranty in relation to the Company or any of its subsidiaries or any of its shares other than as contained in this document;
  - (iii) that neither the Investor nor, as the case may be, their clients, expect Numis to have any duties or responsibilities to the Investor similar or comparable to the duties of “best execution” and “suitability” imposed by The Conduct of Business Source Book contained in The Financial Services Authority’s Handbook of Rules and Guidance, and that Numis is not acting for the Investor or its clients, and that Numis will not be responsible for providing protections to customers or the Investor;
  - (iv) that, save in the event of fraud on the part of Numis (and to the extent permitted by the Rules of the Financial Services Authority), neither Numis, its ultimate holding company nor any direct or indirect subsidiary undertakings of that holding company, nor any of their respective directors and employees shall be liable to the Investor for any matter arising out of Numis’ role as placing agent or otherwise in connection with the Placing and that where any such liability nevertheless arises as a matter of law the Investor will immediately waive any claim against any of such persons which the Investor may have in respect thereof;
  - (v) in the case of a person who confirms to Numis on behalf of an Investor an agreement to subscribe for Placing Shares, that person represents and warrants that he has the authority to do so on behalf of the Investor;
  - (vi) it is not and is not applying as nominee or agent for a person who is, or may be, mentioned in any of the sections 67, 70, 93 or 96 of the Finance Act 1986 (depository receipts and clearance services);
  - (vii) except to the extent clause 7 relating to the United States applies and the Investor has given the representations, warranties, acknowledgements and agreements referred to therein it is not a national or resident of the United States, Canada, Australia or Japan or a corporation, partnership or other entity organised under the laws of the United States, Canada, Australia or Japan and that the Investor will not offer, sell, renounce, transfer or deliver directly or indirectly any of the Placing Shares into the United States, Canada, Australia or Japan or any other jurisdiction where to do so would be in breach of any applicable law and/or regulation or to or for the benefit of any person resident in the United States, Canada, Australia or Japan or any other jurisdiction where to do so would be in breach of any applicable law and/or regulation and the Investor acknowledges that the Placing Shares have not been and will not be registered under the United States Securities Act of 1933, as amended and the relevant exemptions are not being obtained from the Securities Commission of any province of Canada and that the same are not being offered for sale and may not be, directly or indirectly, offered, sold, transferred or delivered in the United States, Canada, Australia or Japan or any other jurisdiction where to do so would be in breach of any applicable law and/or regulation;
  - (viii) it is entitled to subscribe for the Placing Shares in its allocation under the laws of all relevant jurisdictions which apply to such Investor and that such Investor has fully observed such laws, obtained all governmental and other consents which may be required thereunder or otherwise and complied with all necessary formalities; and
  - (ix) that the Investor is a person of a kind described in paragraph 5 of Article 19 or paragraph 2 of Article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

## **5. Supply and Disclosure of Information**

If the Company, Numis or any of their agents request any information about an Investor’s agreement to subscribe for Placing Shares, such Investor must promptly disclose it to them.



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## **6. Miscellaneous**

The rights and remedies of Numis and the Company under these terms and conditions are in addition to any rights and remedies which would otherwise be available to each of them and the exercise or partial exercise of one will not prevent the exercise of others. On application, each Investor may be asked to disclose, in writing or orally, to Numis:

- (i) if he is an individual, his nationality; or
- (ii) if he is a discretionary fund manager, the jurisdiction in which the funds are managed or owned.

All documents will be sent at the Investor's risk. They may be sent by post to such Investor at an address notified to Numis.

Each Investor agrees to be bound by the Articles (as amended from time to time) once the Placing Shares which such Investor has agreed to purchase have been transferred to such Investor.

The contract to subscribe for Placing Shares and the appointments and authorities mentioned herein will be governed by, and construed in accordance with, the laws of England. For the exclusive benefit of the parties mentioned under paragraph 1, above, each Investor irrevocably submits to the exclusive jurisdiction of the English courts in respect of these matters. This does not prevent an action being taken against an Investor in any other jurisdiction.

In the case of a joint agreement to subscribe for Placing Shares, references to an Investor in these terms and conditions are to each such Investor and the Investors' liability is joint and several.

Monies received from applicants pursuant to the Placing will be held in accordance with the terms and conditions of the Form of Confirmation issued by Numis until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 22 June 2005, application monies will be returned without interest.

## **7. Selling Restrictions**

### *United Kingdom*

Before Admission becomes effective, Investors may only offer or sell any Placing Shares in the United Kingdom:

- (i) to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business; or
- (ii) otherwise in circumstances which will not result in an offer to the public in the United Kingdom within the meaning of the POS Regulations.

### *United States*

The Placing Shares have not been, and will not be, registered under the Securities Act, or the securities laws of any other jurisdiction in the United States, and are only being offered and sold in the United States or to US persons by or through a broker-dealer pursuant to available exemptions from the registration requirements of the Securities Act and such laws. Each such offeree and purchaser will be deemed to have represented and warranted to the Company, a broker-dealer and Numis (and each of their respective affiliates) that it is a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act ("QIB") purchasing for its own account or an account with respect to which it exercises investment discretion. Each such purchaser will also be deemed to have acknowledged and agreed that (A) any Placing Shares purchased by it will be (i) "restricted securities" within the meaning of Rule 144 under the Securities Act, (ii) subject to a one year distribution compliance period for purposes of Regulation S under the Securities Act, and (iii) subject to restrictions as to whom such Placing Shares may be subsequently sold, pledged or otherwise transferred so long as they are restricted securities (and

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further acknowledging that any purported transfer in breach of the requirements of Regulation S will not be recognised by the Company); and (B) it will execute and deliver a Purchaser Letter in which it agrees to observe the foregoing and any additional restrictions as may be required by the Company, a broker-dealer and/or Numis.

So long as the Placing Shares are restricted securities within the meaning of Rule 144, the Company agrees to provide each holder of such Placing Shares, and each prospective purchaser of Placing Shares designated by such holder, with the information specified in Rule 144A(d)(4) under the Securities Act.

Dated: 10 June 2005



