



26 September 2006

[Empire Online Limited](#)

INTERIM RESULTS FOR SIX MONTHS ENDED 30 JUNE 2006

Empire Online Limited (the “Company” or “Empire Online”), a provider of marketing services to the online gaming industry, today announces its interim results for the six months ended 30 June 2006.

OPERATING AND FINANCIAL HIGHLIGHTS:

- Earnings before interest taxation depreciation and amortisation (EBITDA) and non-recurring exceptional items of \$15.7m (H1 2005: \$24.9m*).
- Net cash position of over \$260m.
- Net profit before taxation, non-recurring items and amortisation of \$20.0m (H1 2005: \$25.5m*) including net finance income of \$4.7m (H1 2005: \$0.9m*).
- Net gaming revenue for H1 2006 was \$38.2m (H1 2005: \$49.7m*). Net gaming revenue across all gaming platforms excluding Empire Poker for H1 2006 was \$34.7m (H1 2005: \$10.7m*).
- Casino net gaming revenue for H1 2006 was \$30.2m (H1 2005: \$10.7m*).
- Poker net gaming revenue for H1 2006 was \$8.0m (H1 2005: \$39.0m*).
- Geographic diversification with 55% of new real money players driven from outside of the USA (H1 2005 39%).

- Reported profit after amortisation and non-recurring charges before taxation of \$253.1m (H1 2005 \$21.2m).

* Pro forma figure which is defined as the aggregation of the Company for six months to 30 June 2005 and the results of Tradal Limited to 31 May 2005.

There will be a presentation to analysts at 9.00am today at Hudson Sandler, 29 Cloth Fair, London, EC1A 7NN. For further investor information please go to <http://investors.ep.com/>

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Chief Executive's Statement

FINANCIAL REVIEW

Net gaming revenues for the first six months of 2006 were \$38.2m (2005: \$49.7m*). The increase in casino revenues arising from the Playtech licencees acquired in the second half of 2005 offset the reduction in Poker revenues due to the termination of Empire Poker following the settlement agreement with Partygaming plc in February 2006. Total casino revenues for the first six months of 2006 rose to \$30.2m (2005: \$10.7m*). By contrast, poker revenues for the first six months of 2006 fell to \$8.0m (2005: \$39.0m*).

Gross profit for the first six months of 2006 was \$17.6m, 46.1% of revenue (2005: \$21.1m, 50.3% of revenue). Gross profit margin has reduced due to the change in product mix towards casino activities.

Administration expenses have risen to \$2.3m, 6.0% of revenues, for the first six months of 2006 (2005: \$1.0m, 2.5% of revenues). This increase is due to additional expenditure due to listing and lag in re-organisation following the disposal of Empire Poker. Administration costs, as a percentage of revenues, is low compared with the sector in general.

Net finance income has increased substantially to \$4.7m for the first six months of 2006 (2005: \$0.7m). This reflects the financial resources available to the group following the Empire Poker settlement. In the second half of the current financial year the Company expects to obtain a yield in excess of LIBOR on its cash resources.

The profit from non-recurring items and amortisation of intangible assets excluding goodwill and employee share options was \$233m for the period (2005: nil). The net profit from the settlement of Empire Poker was \$237m after deducting related costs, which consisted of professional fees and termination costs for affiliates and agents of \$13m. Amortisation of intangible assets of \$2m was charged during the period mainly relating to Player Data and Domain names associated with the Club Dice and Noble Poker acquisitions. Employee share option amortisation was \$1.5m for the period.

DIVIDEND

The Board declares an interim dividend of \$5m, which equates to 1.7 US cents per share. The dividend will be paid on 30 November 2006 to those shareholders on the

register at 27 October 2006.

TRADING OUTLOOK

As was reported within the Q2 KPI announcement, the normal slow down in trading activity seen in Q2 has been more pronounced this year when compared to previous years. Current daily sign up rates of new real money players are approximately 250 players per day. Whilst the Board expects the outcome for the current year to be broadly in line with market expectations, if there is no improvement in this rate of sign ups, earnings growth for 2007 will be challenging.

STRATEGIC UPDATE

The regulatory uncertainty that the on line gaming industry has always faced has increased as a consequence of recent events. In light of this, the Board will review carefully all uses for the Company's surplus capital in order to maximize shareholder value.

The Company will update shareholders in due course.

* Pro forma figure which is defined as the aggregation of the Company for six months to 30 June 2005 and the results of Tradal Limited to 31 May 2005.

Independent Review Report

to Empire Online Limited

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2006 which comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 12. We have read the other information contained in the interim report, which comprises only of the operating and financial highlights and the Chief Executive's statement, and considered whether it contains any apparent misstatements or material inconsistencies with the financial information. Our responsibilities do not extend to any other information.

This report is made solely to the company in accordance with guidance contained in APB Bulletin 1999/4 "Review of Interim Financial Information". Our review work has been undertaken so that we might state to the company those matters we are required to state to it in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusion we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report and for ensuring that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

This Interim report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 "Review of Interim Financial Information" issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

GRANT THORNTON UK LLP
Chartered Accountants
Slough
26 September 2006

Notes:

1 The maintenance and integrity of the Empire Online website is the responsibility of the directors: the interim review does not involve consideration of these matters and, accordingly, the company's reporting accountants accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the website.

2 Legislation in the United Kingdom governing the preparation and dissemination of the interim report differs from legislation in other jurisdictions.

**Financial
results
Empire Online
Limited
Consolidated Income Statement for the six months ended 30 June 2006**

Six months ended 30 June	Note	Pre- amortisation and non- recurring items	Amortisation and non recurring items	Year ended 31 December		
		2006 Unaudited \$000	2006 Unaudited \$000	2006 Unaudited \$000	2005 Unaudited \$000	2005 Audited \$000
Net gaming revenue		38,203	-	38,203	41,953	97,389
Cost of sales		(20,560)	-	(20,560)	(20,838)	(49,644)
Gross profit		17,643	-	17,643	21,115	47,745
Other income		-	-	-	415	-
Amortisation and non-recurring items	9	-	233,130	233,130	-	(4,581)
Administrative expenses		(2,353)	-	(2,353)	(1,028)	(3,171)

Operating profit	<u>15,290</u>	<u>233,130</u>	<u>248,420</u>	<u>20,502</u>	<u>39,993</u>
Net finance income	<u>4,722</u>	<u>-</u>	<u>4,722</u>	<u>695</u>	<u>1,191</u>
Profit before taxation	<u>20,012</u>	<u>233,130</u>	<u>253,142</u>	<u>21,197</u>	<u>41,184</u>
Taxation	<u>(4)</u>	<u>-</u>	<u>(4)</u>	<u>(3)</u>	<u>(10)</u>
Profit after taxation for the period	<u>20,008</u>	<u>233,130</u>	<u>253,138</u>	<u>21,194</u>	<u>41,174</u>

Earnings per share	8				
Basic			<u>\$0.86</u>	<u>\$0.86</u>	<u>\$0.16</u>
Diluted			<u>\$0.83</u>	<u>\$0.86</u>	<u>\$0.16</u>

Empire Online Limited
Consolidated Balance Sheet as at 30 June 2006

As at 30 June		2006	2005 December	31
	Note	Unaudited \$000	Unaudited \$000	Audited \$000
Assets				
Non-current assets				
Plant and Equipment	11	167	-	119
Intangibles		221,778	175,750	224,628
		<u>221,945</u>	<u>175,750</u>	<u>224,747</u>
Current assets				
Trade and other receivables		7,092	7,413	11,431
Cash and cash equivalents		262,114	43,958	16,297
		<u>269,206</u>	<u>51,371</u>	<u>27,728</u>
Total assets		<u>491,151</u>	<u>227,121</u>	<u>252,475</u>
Equity				
Share capital		-	-	-
Share premium		209,807	210,251	209,807
Share option reserve		1,728	-	277
Retained earnings		275,435	12,317	22,297
Total equity		<u>486,970</u>	<u>222,568</u>	<u>232,381</u>
Liabilities				
Current liabilities				
Trade and other payables		4,171	4,550	20,088
Current tax payable		10	3	6
Total liabilities		<u>4,181</u>	<u>4,553</u>	<u>20,094</u>
Total equity and liabilities		<u>491,151</u>	<u>227,121</u>	<u>252,475</u>

Consolidated Statement of Changes in Equity for the period ended 30 June 2006

	Share Capital \$000	Share Premium Reserve \$000	Share Option Reserve \$000	Retained Earnings \$000	Total \$000
Balance at 1 January 2005	1	604	-	30,166	30,771
Net profit for the period	-	-	-	41,174	41,174
Issue of Share Capital	(1)	222,601	-	-	222,600
IPO expenses	-	(13,398)	-	-	(13,398)
Share option reserve	-	-	277	-	277
Dividends paid	-	-	-	(49,043)	(49,043)
Balance at 31 December 2005	-	209,807	277	22,297	232,381
Net profit for the period	-	-	-	253,138	253,138
Share option reserve	-	-	1,451	-	1,451
Balance at 30 June 2006	-	209,807	1,728	275,435	486,970
Comparative prior period					
Balance at 1 January 2005	1	604	-	30,166	30,771
Net profit for the period	-	-	-	21,194	21,194
Issue of Share Capital	-	209,646	-	-	209,646
Adjustment *	(1)	1	-	-	-
Dividends paid	-	-	-	(39,043)	(39,043)
Balance at 30 June 2005	-	210,251	-	12,317	222,568

* Shares in issue at 1 January 2005, had a par value of US \$0.01 each. On 15 June 2005 each share was converted and reclassified to 2,066.222427 ordinary shares of no par value.

Empire Online Limited
Consolidated Cash Flow statement for the six months ended 30 June 2006

Six months ended 30 June	2006	2005	Year ended 31
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		December 2005	
	Unaudited Note	Unaudited \$000	Audited \$000
Cash flows from operating activities			
Profit before taxation		253,142	21,197
Adjustments for			
Depreciation and amortisation		2,508	242
Change in accounting estimate		798	-
Interest income		(4,682)	(712)
Interest expense		68	17
Equity settled share options		1,451	-
Profit on EP disposal		(236,657)	-
		<u>16,628</u>	<u>20,744</u>
			<u>43,255</u>
Changes in working capital			
Decrease/(increase) in trade and other receivables		4,339	(1,450)
(Decrease)/increase in trade and other payables		(15,917)	1,230
Taxation paid		-	(4)
		<u>(11,578)</u>	<u>(220)</u>
			<u>23,800</u>
Net cash generated from operating activities		<u>5,050</u>	<u>20,524</u>
			<u>67,055</u>
Cash flows from investing activities			
Purchase of plant and equipment		(83)	-
Purchase of intangible assets		(421)	(175,198)
Acquisition of business		-	-
Disposal of assets	9	236,657	-
Interest income received		4,682	712
		<u>240,835</u>	<u>(174,486)</u>
			<u>(225,692)</u>
Net cash generated from/(used in) investing activities			
Cash flows from financing activities			
Loans to shareholders		-	12,504
Dividends paid		-	(39,043)
Proceeds from issue of shares		-	209,646
Interest paid		(68)	(17)
		<u>(68)</u>	<u>(55)</u>
Net cash (used in)/generated from financing activities		<u>(68)</u>	<u>183,090</u>
			<u>160,104</u>
Net increase in cash and cash equivalents		<u>245,817</u>	<u>29,128</u>
			<u>1,467</u>
Cash and cash equivalents at the beginning of the period		16,297	14,830
		<u>16,297</u>	<u>14,830</u>
Cash and cash equivalents at the end of the period		<u>262,114</u>	<u>43,958</u>
			<u>16,297</u>

Empire Online Limited

Notes to the financial information

Six months ended 30 June 2006

1. Accounting Policies

The Interim financial statements of Empire Online Limited have been prepared on the basis of the accounting policies stated in the Annual Report 2005, available on www.ep.com. The financial information has been prepared in accordance with IAS 34 "Interim Financial Reporting".

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The subsidiaries are companies controlled by Empire Online Limited. Control exists where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Subsidiaries are consolidated from the date the parent gained control until such time as control ceases.

The financial statements of the subsidiaries are included in the consolidated financial statements using the acquisition method of accounting. On the date of the acquisition the assets and liabilities of a subsidiary are measured at their fair values and any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Intercompany transactions and balances are eliminated on consolidation.

Basis of preparation

These results have been prepared on the basis of the accounting policies expected to

be adopted in the Company's full year financial statements, which are expected to be prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Goodwill is initially measured at cost, being the excess of the consideration paid over the net fair value of the assets acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized. Goodwill is reviewed annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The financial information for the period ending 30 June 2005 is extracted from the Group's financial statements for the year ended 31 December 2005.

2. Unusual items

During the period the company has disposed of certain assets as a result of a legal dispute with PartyGaming Plc. This disposal may be considered as unusual due to its size and form.

The impact of this is disclosed in notes 4 and 5.

3. Change of Estimates

During the year ended 31 December 2005, a provisional amount was used in respect of goodwill \$44,074,000 relating to the acquisition of Club Dice. This was reduced by \$798,000 during the period upon finalization of the total amount due to the selling party.

4. Effect of changes in the composition of the entity

In February 2006 certain trade assets were disposed to PartyGaming for \$250m.

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

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

In the quarter ended 31 March 2006 the assets contributed gross profit before administrative expenses of \$2.5 million.

5. Segment Information in respect of assets disposed during period

Business Segment

Six months ended 30 June

	2006 Unaudited \$000
Revenue by business segment	
Poker	3,553
Casino	556
	<hr/> 4,109
Segment result by business segment	
Poker	2,007
Casino	540
	<hr/> 2,547
Gross profit before central costs	<hr/> 2,547

6. Dividend

The Board declares an interim dividend of \$5m, which equates to 1.7 US cents per share. The dividend will be paid on 30 November 2006 to those shareholders on the register at 27 October 2006.

7. Segment Information for the period

Business segments

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

Six months ended 30 June	2006 Unaudited \$000	Year ended	
		31 December 2005 Unaudited \$000	2005 Audited \$000
Revenue and result by business segment			
Casino			
Net gaming revenue	30,209	2,943	23,635
Segmental result	15,754	2,089	12,719
Poker			
Net gaming revenue	7,994	39,010	73,754
Segmental result	3,163	24,030	38,274
Consolidated			
Net gaming revenue	38,203	41,953	97,389
Segmental results	18,917	26,119	50,993
Central costs	(1,274)	(5,004)	(3,248)
Gross Profit	17,643	21,115	47,745

8. Earnings per share

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

Six months ended 30 June	Year ended 31 December		
	2006 Unaudited \$000	2005 Unaudited \$000	2005 Audited \$000
Net profit attributable to ordinary shareholders (\$000)	253,138	21,194	41,174
Weighted average number of ordinary shares/ (number)	292,777,772	24,505,698	260,689,492
Basic earnings per share (\$)	0.86	\$0.86	\$0.16
Weighted average number of ordinary shares/ (number)	305,767,612	24,564,494	260,862,570
Diluted earnings per share (\$)	0.83	\$0.86	\$0.16

There are potentially dilutive shares in existence at the period end. Diluted earnings per share have been calculated by dividing the net profit attributable to ordinary shareholders (profit for the period) by the weighted average number of shares in issue during the period.

9. Amortization and non-recurring items

These items are of a non-recurring nature and they include the net profit from the disposal to PartyGaming, the amortisation of the share options scheme and the amortisation of the Player Data and Domains acquired during 2005.

	2006 Unaudited \$000	2006 Unaudited \$000
Disposal proceeds received		250,000
Legal and other expenses paid		(11,800)
Affiliate costs paid		(1,543)
Profit from disposal to PartyGaming		236,657

Less amortisation:		
Player Data and Domains	(2,076)	
Share Options	(1,451)	(3,527)
	<u> </u>	<u> </u>
Total amortisation and non-recurring items		<u>233,130</u>

10. Related parties transactions

Six months ended 30 June	2006 Unaudited \$000	2005 Unaudited \$000
Administration services provided by Tradal Ltd	305	631
	<u> </u>	<u> </u>

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

11. Property, plant and equipment

During the six months ended 30 June 2006, the group has acquired property, plant and equipment with a cost of \$83,000. Depreciation of \$35,000 has been charged during the period.

12. Preparation of Interim Statements

The financial information does not constitute statutory accounts within the meaning of the BVI International Business Companies Act 1984 (as amended). Financial Statements for Empire Online Limited for the year ended 31 December 2005, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, on which the auditors gave an unqualified audit report are available from the company's website, www.ep.com.

Pro Forma Financial Information

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

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

To provide comparable financial information with that included within the AIM admission document, the aggregation of the income statements for both Empire Online Limited and Tradal Limited is shown below.

This aggregation has been prepared from the audited financial statements for the year ended 31 December 2005 and the unaudited results for the interim period ended on 30 June 2006.

Empire Online Limited
Pro Forma Income Statement for the six months ended 30 June 2006

Six months ended	Pre-amortisation and non-recurring items	Amortisation and non-recurring items	Year ended 31 December		
	2006 \$000 Unaudited	2006 \$000 Unaudited	2006 \$000 Unaudited	2005 \$000 Unaudited	2005 \$000 Unaudited
Net gaming revenue	38,203	-	38,203	49,744	105,181
Cost of sales	(20,560)	-	(20,560)	(24,439)	(53,244)
Gross profit	17,643	-	17,643	25,305	51,937
Other income	-	-	-	415	-
Amortisation and non-recurring items	-	233,130	233,130	-	(4,581)
Administrative expenses	(2,353)	-	(2,353)	(1,134)	(3,249)
Operating profit	15,290	233,130	248,420	24,586	44,107
Net finance income	4,722	-	4,722	925	1,392
Profit before taxation	20,012	233,130	253,142	25,511	45,499
Taxation	(4)	-	(4)	(15)	(22)
Profit after taxation for the period	20,008	233,130	253,138	25,496	45,477

Earnings per share

Basic	\$0.86	\$0.09	\$0.17
	<u> </u>	<u> </u>	<u> </u>
Diluted	\$0.83	\$0.09	\$0.17
	<u> </u>	<u> </u>	<u> </u>

Empire Online Limited**Pro Forma Cash Flow statement for the six months ended 30 June 2006**

Six months ended 30 June	2006	2005	Year ended 31 December 2005
Cash flows from operating activities	Unaudited \$000	Unaudited \$000	Unaudited \$000
Profit before taxation	253,142	25,511	45,499
Adjustments for			
Depreciation and amortisation	2,508	299	2,928
Change in accounting estimate	798	-	-
Interest income	(4,682)	(951)	(1,395)
Interest expense	68	22	90
Equity settled share options	1,451	-	277
Exceptional profit of EP disposal	(236,657)	-	-
	<u>16,628</u>	<u>24,881</u>	<u>47,399</u>
Changes in working capital			
Decrease/(increase) in trade and other receivables	4,339	(6,715)	14,039
(Decrease)/increase in trade and other payables	(15,917)	2,311	15,793
Taxation paid	-	(26)	(4)
Change in related party balances	-	1,377	-
	<u>(11,578)</u>	<u>(3,053)</u>	<u>29,828</u>
Net cash generated from operating activities	<u>5,050</u>	<u>21,828</u>	<u>77,227</u>
Cash flows from investing activities			
Purchase of plant and equipment	(83)	(48)	(131)
Purchase of intangible assets	(421)	(175,253)	(5,558)
Acquisition of business	-	-	(221,192)
Elimination of Tradal Ltd assets and liabilities	-	-	216
Disposal of assets	236,657	-	-
Interest income received	4,682	951	1,395
	<u>240,835</u>	<u>(174,350)</u>	<u>(225,270)</u>
Net cash generated from/(used in) investing activities	<u>240,835</u>	<u>(174,350)</u>	<u>(225,270)</u>

Cash flows from financing activities

Loans to shareholders	-	12,533	-
Dividends paid	-	(39,043)	(49,043)
Proceeds from issue of shares	-	209,646	209,203
Decrease in Capital Account	-	-	(18,010)
Decrease in Treasury Shares	-	-	445
Interest paid	(68)	(22)	(90)
	<u>(68)</u>	<u>183,114</u>	<u>142,505</u>
Net cash (used in)/ generated from financing activities			
	<u>(68)</u>	<u>183,114</u>	<u>142,505</u>
Net increase/(decrease) in cash and cash equivalents	245,817	30,592	(5,538)
Cash and cash equivalents at the beginning of the period	<u>16,297</u>	<u>21,835</u>	<u>21,835</u>
Cash and cash equivalents at the end of the period	<u>262,114</u>	<u>52,427</u>	<u>16,297</u>