



Highlights

- Turnover increased by 50% to a record £497.0m (2003 restated: £330.4m), due to significant growth in Betting products, particularly on-line casino and poker.
- Operating profit before goodwill and exceptional restructuring costs was £16.7m (2003: £19.9m); after adjusting for the £3.2m one-off cost of a Football Pools marketing campaign, profit at this level was £19.9m, in line with last year. Operating profit was £6.3m (2003: £9.5m).
- Profit before tax, goodwill and exceptionals was £9.6m (2003: £13.3m). Loss before tax was £0.8m (2003: £3.5m profit).
- Net debt reduced by £1.9m to £112.8m.
- Earnings per share before amortisation of goodwill of 1.00p (2003: 1.49p). Basic EPS was a loss of 0.56p (2003: loss of 0.04p).
- Major business review completed in March 2005, which has refocused Group strategy and identified annualised employment cost savings of £2.4m, following one-off redundancy costs in 2005 of approximately £1.4m.
- Group's growth strategy clearly focused on new media betting and gaming including the exclusive interactive gaming deal with ITV:
 - Important strategic position established in the new media betting and gaming market, delivering growth and continuous product development.
 - ITV and Sportech fully committed to further developing a joint vision for the future with current work focusing on several exciting opportunities including a night-time poker and soft casino games offer.
- Resilient Football Pools business continuing to deliver significant free cash flow.

Sportech PLC At a Glance

Soft Gaming

The Soft Gaming division comprises Football Pools, Spot the Ball and Lotto products available via the direct channels of telephone, internet and television and also via our UK wide network of door-to-door collectors and local retail outlets, including newsagents and convenience stores.



Littlewoods and Zetters Football Pools

Customers: circa one million

Distribution:
telephone, internet, interactive television,
collector network, retail network

Launched: 1923

Spot the Ball and Lotto

Customers: circa 200,000

Distribution:
telephone, internet, interactive television,
collector network, retail network

Launched: 1975

Game On

Registered customers: circa 60,000

Distribution:
internet, interactive television

Launched: 2002

Established football scores prediction games, played weekly throughout the year, offering a jackpot prize of up to £2m.

Established 'Spot the Ball' and numbers selection games, played weekly throughout the year, offering a jackpot prize of up to £250,000.

A wide range of entertainment led games offering a variety of prizes (cash and high value items).

Betting

The Betting division comprises sports betting, fixed-odds games, casino and person-to-person poker products available via the direct channels of telephone, internet and television.



Bet Direct

Registered customers: 380,000

Distribution:
telephone, internet, interactive television,
mobile service

Launched: 1998

Established sports book operation offering a wide range of markets and attractive special offers. Fixed-odds games are also offered via internet and interactive television.



Bet Direct Casino and Poker

Registered customers: N/A

Distribution:
internet

Launches: April 2005

Bet Direct branded casino and poker, offering a broad range of popular games and person-to-person poker.

Bet Direct customers are able to utilise their single account across betting, casino and poker.



Littlewoods Casino and Poker

Registered customers: 50,000

Distribution:
internet

Launched: 2003

Established Littlewoods branded casino and poker, offering a broad range of popular games and person-to-person poker including major world tournament entry.

The Sportech strategy is clearly focused on the core revenue generating areas of the business, Football Pools and new media betting and gaming, and the future growth opportunity around the exclusive interactive deal with ITV.

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There are numerous opportunities for growth in our business.



I am pleased to report a 50% increase in turnover for the year 2004 to £497.0m (2003: restated £330.4m), due to the success of our Betting products, particularly on-line casino and poker. The significant impact of these new media products marks an important milestone for the business in its transformation from a historical Football Pools based business to a leading betting and gaming operator, offering a broad portfolio of products and distribution channels and capitalising on the immense opportunities presented by new technologies.

Operating profit before goodwill, restructuring costs and the one off impact of a Football Pools marketing campaign undertaken during the course of the year, at a cost of £3.2m, remained steady at £19.9m (2003: £19.9m). Operating profit was £6.3m (2003: £9.5m).

During the course of the year, the multi-channel infrastructure we had been working hard to achieve was cemented, with the launch of gaming and betting on ITVi. There are numerous opportunities for growth in our business, particularly from our interactive distribution channels and we remain committed to delivering these opportunities. Our relationship with ITV and the development of this exciting and substantial opportunity is a key point in our strategic plan.

George Rushton, Managing Director, resigned from the business in November 2004 and the Board was pleased to appoint Roger Withers, Non-executive Director, to the role on an interim basis. Roger has achieved much in terms of the organisation, structure, focus and development of the business following his appointment, and we have made an encouraging and positive start to the financial year. I look forward to updating you as to the appointment of a permanent Chief Executive to Sportech PLC in the near future.

On behalf of the Board, I would like to acknowledge the commitment and loyalty of our employees and their enthusiastic contribution to the continued development of the business, and express our thanks.

A handwritten signature in black ink, appearing to read 'David Mathewson'.

David Mathewson

Chairman

18 April 2005



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My priorities have been to take appropriate and immediate action to benefit future profit and cash flow.

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Having recently taken up the role of Acting Managing Director in November 2004, shareholders will not be surprised that my priorities have been to take appropriate and immediate action within the business in order to benefit future profit and cash flow.

We have overhauled the business, closing non-profitable activities, such as our scratchcard and retail development operations, in order to ensure a clear focus on our established core business. We also aim to capitalise on the growing demand for on-line gambling, particularly casino and poker, and to further develop the opportunities presented by interactive television and mobile telephony. In conjunction with this activity we have implemented a number of measures to reduce our costs of operation and create more efficient processes to support the delivery of new products to our mass-market customer base.

We anticipate that the costs associated with these actions will be c. £1.4m and whilst this will have an impact on 2005 performance, we are confident that this will deliver full year benefits of £2.4m in 2006.

2005 will see a host of product extensions, including the launch of the Bet Direct branded casino, poker and mobile betting offers and a range of new products within our exclusive ITVi betting and gaming space. The tremendous growth in our Betting division revenues in 2004 indicated our ability to capitalise on the popularity of the new media channels and deliver a compelling proposition to our mass-market customer base. We remain optimistic about the long-term opportunities for growth in the interactive market which is underpinned by our continuing strong relationship with ITV. At the same time, we remain committed to our Football Pools operation, which continues to deliver significant profits and cash flow to the Group.

Roger Withers
Acting Managing Director
18 April 2005



Football Pools remains a core part of the business going forward, providing substantial cash flow.



The encouraging growth in Group revenue achieved in the first half of 2004 continued in the second half with full-year revenues up 50% at £497.0m (2003: £330.4m).

Group operating profit, before amortisation of goodwill, restructuring and the one-off impact of a Football Pools marketing campaign, was in line with last year at £19.9m. This reflects a good underlying performance from Soft Gaming and the progress made within our Betting business, where our key action plan is on track. The one-off impact of a Football Pools marketing campaign reduced Group operating profit, pre exceptional restructuring and goodwill, to £16.7m (2003: £19.9m).

	Turnover		Operating profit	
	2004 £m	2003* £m	2004 £m	2003* £m
Soft Gaming				
Football Pools (pre one-off marketing campaign)	79.5	89.7	26.4	25.6
Net cost of one-off marketing campaign			(3.2)	—
Football Pools	79.5	89.7	23.2	25.6
Games & Lotteries	7.5	8.6	1.1	0.4
Established Soft Gaming	87.0	98.3	24.3	26.0
Interactive Development	7.6	4.2	(5.5)	(3.6)
Total Soft Gaming	94.6	102.5	18.8	22.4
Betting				
Interactive	319.8	147.5	0.7	0.1
Telephone	82.6	80.4	(2.8)	(2.6)
Total Betting	402.4	227.9	(2.1)	(2.5)
Total pre exceptional restructuring and goodwill	497.0	330.4	16.7	19.9
Restructuring			(1.2)	(1.3)
Total before amortisation of goodwill	497.0	330.4	15.5	18.6

*As restated – see note 2 of the accounts



Soft Gaming

Underlying profits from the core Football Pools business were 3% ahead of 2003 at £26.4m, reflecting an improving gross margin and the full-year impact of operating efficiencies, which will also positively impact on 2005. The revenue attrition rate for Pools was 11%, in line with last year.

The one-off marketing campaign, which commenced in August 2004, generated increased awareness of the Football Pools across the UK, however new customer recruitment levels were not as high as expected. The campaign was therefore expensed within the financial year at a net cost of £3.2m, reducing the Football Pools operating profits to £23.2m.



Football Pools remains a core part of the business going forward, providing substantial cash flow. The Group continues to examine game development and low cost initiatives to recruit new customers to the existing Football Pools game, whilst also seeking ways to capitalise on new media channel opportunities.

Profits from other off-line Soft Gaming products increased to £1.1m, despite a £0.6m trading loss on scratchcards. The Group is on track to exit the scratchcard business by the end of the first half of 2005, enabling the Group to focus on core Soft Gaming activities – Football Pools, Spot the Ball and Lotto – to deliver profits and cash flow.



Interactive Soft Gaming revenues increased by 81% to £7.6m, principally driven by internet growth. The five year exclusive deal with ITV commenced in March 2004 and this initiated an increase in the cost base, principally amortisation of development costs. In comparison, 2003 was a year of mainly development activity with costs capitalised as appropriate. The service has attracted over 25,000 customer registrations via ITVi red button access points to date, however, active customer numbers and average gross win levels per active customer have remained low during this initial phase of the contract. As a result, the operating loss increased to £5.5m (2003: £3.6m).

Betting

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We are pleased to report significant growth in both Betting turnover and gross win in the year, with increases of 77% and 68% respectively, reflecting increasing awareness of our betting brands.

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Betting

The Betting division, comprising sports betting, fixed-odds games, casino and person-to-person poker products via the direct channels of telephone, internet and television, reduced its operating loss by 16% to £2.1m (2003: £2.5m). During the year we continued the roll-out of new fixed-odds games across our channels with the full-year benefit of these to be seen in 2005.

We are pleased to report significant growth in both Betting turnover and gross win in the year, with increases of 77% and 68% respectively, reflecting increasing awareness of our betting brands, Bet Direct, Littlewoodscasino.com and Littlewoodspoker.com. Despite unfavourable sporting results, gross win of £9.4m in the second half was 2% higher than the first half and sports-book margins for the full-year were a pleasing 8.4%.



Approximately 50% of the total gross win was derived from non sports-book activity including casino, poker and fixed-odds games. This increasing trend is expected to continue which will improve further the Betting Division's overall performance during 2005 and increase future stability and resilience in the event of unfavourable sporting results.

Operating profits from interactive betting increased sevenfold, albeit from a low base, to £0.7m. Our interactive offer enjoyed a significant boost in revenues, up 117%, with gross win at £10.5m, 119% ahead of 2003, due to very strong growth in on-line casino and poker products, and the introduction of fixed-odds games. Recruitment of new interactive customers doubled to 80,000 in the year, 24,000 of them to our casino and poker offer. Active customers across our interactive offering were 18,900 by the end of the year, up 52% on 2003.





The Company continues to develop its interactive product and distribution portfolio focusing on profit generation. Soon Bet Direct customers will be able to access a wide-ranging product offer on internet, television and mobile via a single electronic wallet. Importantly, future growth prospects will be further enhanced by the addition of a Bet Direct branded casino and person-to-person poker offer, which is on track to launch in mid April. Mobile phone sports betting products have been launched very recently which will be accompanied by casino style games in the near future.

Telephone betting delivered a 3% growth in full-year revenues, reflecting a stronger second half to the year once televised UK racing on Attheraces came back on air in June 2004. Most notably, gross win on telephone increased 29% to £8.1m. Operating losses from telephone at £2.8m were marginally higher than 2003, reflecting, in part, increased investment in sponsorship and marketing. Significant steps were taken during the second half of 2004 to improve the telephone-betting model. In October 2004, telephone handling was successfully moved in house and this action is on track to deliver annualised call handling cost savings in excess of £1m, offset by non-recurring exit costs in 2004 and 2005, relating to the previous outsourcing contract. The cost charged as an operating exceptional in 2004 was £0.3m and £0.6m will be charged in 2005.

Interactive Television

Review of the year

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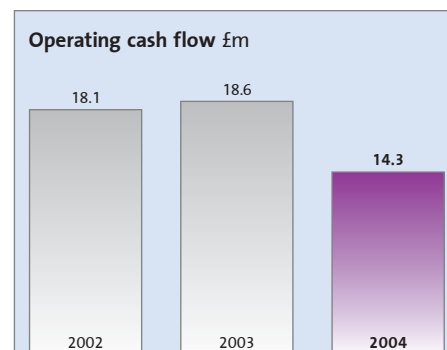
Interactive Television Gaming with ITV

We have just completed the first year of the exclusive interactive betting and gaming partnership with ITV which has a minimum further four years to run. There is a joint vision for the future and current developments are focusing on several exciting opportunities, and the integration of betting and gaming propositions within ITV programming. These include night-time poker and soft casino games, gaming linked to a virtual Coronation Street and soft games linked to day-time programming.

The full Littlewoods Game On service on ITVi, including sports betting, commenced in June 2004. To date the service has relied on red button interactivity only, with future developments expected to widen product appeal by encompassing other interactive return paths such as SMS. The ITVi Game On service has been further strengthened with the launch in early March 2005 of a full-screen 24:7 Game Zone.

Whilst we are focusing on the recruitment of new customers and growing gross win levels, it is in a cost conscious framework. Specific action has been taken on the cost base to ensure that cash requirements for 2005 will be substantially lower than 2004 levels.





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Total capital expenditure during the year was £2.2m (2003: £3.0m), which included further investment in developing games and betting content for interactive television.

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Cash flow and net debt

The Group again generated strong cash flow, although net cash inflow from operating activities at £14.3m was lower than the previous year (2003: £18.6m), mainly reflecting expenditure on the one-off Football Pools marketing campaign. Total capital expenditure during the year was £2.2m (2003: £3.0m), which included further investment in developing games and betting content for interactive television. Net debt reduced by £1.9m to £112.8m.

Group strategy and structure

A major review of the business was undertaken at the beginning of 2005 under the control of the acting Managing Director, Roger Withers. The business strategy is now clearly focused on the core revenue generating areas of the business, Football Pools and new media betting and gaming, and the future growth opportunity around the exclusive interactive deal with ITV.

The consequential impact is to reduce annualised employment costs by £2.4m, £0.5m relating to the scratchcard closure. This is expected to result in an associated exceptional restructuring cost in the first half of 2005 of approximately £1.4m.

Interest payable

Increased to £7.1m (2003: £6.6m) reflecting higher average rates.

International Financial Reporting Standards

International Financial Reporting Standards will become mandatory for all EU listed companies for periods commencing after 1 January 2005.

The areas of change on the accounts have been identified as the amortisation of goodwill, pension accounting, share options, financial instruments and segmental reporting.

Gary Speakman

Finance Director

18 April 2005

The reputation of Littlewoods Gaming is built upon an 80 year heritage of trust and integrity and the Sportech Board remains committed to responsible gaming and betting practice and employment policies.



The adoption of age verification software is planned to take place across the business in 2005.



Responsible gaming and betting practices

The Littlewoods Gaming portfolio of products are regulated by UK authorities, including the Gaming Board. All Littlewoods Gaming products are subject to age restrictions and the adoption of age verification software is planned to take place across the business during 2005, in addition to measures already in place.

Littlewoods Gaming actively promotes GamCare, the national association for gambling care educational resources and training, to its customers, and in accordance with industry best practice a donation of £50,000 was made to the Responsibility in Gambling Trust during the year.

Support for good causes and charities

During the financial year 2004 Littlewoods Gaming continued to provide sole financial support to the Foundation for Sport and the Arts on a voluntary basis. The Foundation supports amateur sport and arts projects throughout the UK, awarding grants up to £500,000. Gary Speakman, Finance Director, Sportech PLC, continues to serve on the Board of Trustees of this very worthwhile institution.

Sales of scratchcard and lotto products, managed on behalf of charities by Littlewoods Gaming, generated £2.4m during the year for leading good causes and charities including The Royal British Legion and the British Olympic Team.

In addition Littlewoods Gaming supported the following in 2004:

- Daily Mail Tsunami Appeal £25,000
- Responsibility in Gambling £50,000
- Alder Hey Children's Hospital £3,000
- Bet Direct charities £24,000

Bet Direct charities include various childrens' charities and sports related charities.

Employee policies

The Board recognises the vital contribution of employees to the future success of the business and is pleased to note that Littlewoods Gaming is an accredited Investors in People and Disability Two Ticks employer.

Board of Directors and Senior Management



David Mathewson*§† 57
Non-executive Chairman

David Mathewson has been a Director of the Company since 1992 and was appointed Chairman on 1 January 2002. He is a Non-executive Director of Noble & Co Ltd, merchant bankers, Edinburgh UK Tracker Trust PLC, Martin Currie High Income Trust PLC, Murray VCT PLC and various private companies. He is also Non-executive Chairman of Geared Opportunities Income Trust plc and a Trustee of the Royal Botanic Gardens, Edinburgh. David Mathewson is a qualified chartered accountant.



Roger Withers*† 62
Acting Managing Director

Roger Withers was appointed Executive Director with overall responsibility on 8 November 2004, and will retain this position until the appointment of a permanent Chief Executive. He was appointed to the Board on 4 September 2000, following the acquisition of Littlewoods Gaming where he was Executive Chairman. He previously held a variety of senior positions with Bass PLC and Hilton Group PLC. Roger Withers is Chairman of Arena Leisure PLC and holds a number of Non-executive Directorships in the leisure, exhibition and technology industries.



Gary Speakman§ 43
Finance Director and Company Secretary

Gary Speakman was appointed Finance Director on 1 November 2000, having previously been Finance Director of Littlewoods Gaming for three years. He had previously held a variety of positions with The Littlewoods Organisation, Gallaher Limited, Leyland DAF, Rover Group and Dowty Group. He is responsible for finance, company secretarial, and group services including technology. Gary Speakman is a qualified chartered management accountant.



Kathryn Revitt*†‡ 40
Non-executive Director

Kathryn Revitt was appointed to the Board on 4 September 2000. She is a Director of a number of companies including Leisure Parc Limited, the owner of Blackpool Tower, The Winter Gardens, and Cuerden Leisure Limited, an operator and distributor of gaming machines. Kathryn Revitt is a qualified solicitor.

* Audit Committee
§ Pension Scheme Board
† Remuneration Committee
‡ Senior Non-executive Director

Senior Management



Angela Moran 49
Director of Football Pools

Angela Moran was appointed Director of Football Pools in January 2001. She is responsible for all aspects of Football Pools operations. She joined Littlewoods Gaming in 1976 and has held a variety of Senior Management positions within the Company.



Peter Cuffe 47
Director of Interactive Media

Peter Cuffe joined Littlewoods Gaming in March 2000. He is responsible for new media and e-commerce strategy for all products within the Company's portfolio. He was previously Managing Director of London-based Blue Marble, the new media production facility of the D'Arcy Group.

Directors' Report

For the year ended 31 December 2004

The Directors present their report and the audited financial statements for the year ended 31 December 2004.

Principal activities

The principal activities of the Group remain Soft Gaming (comprising Football Pools and Games & Lotteries) and Sports Betting, both operating under the Littlewoods Gaming brand. Details of the Group's performance during the year and future prospects are contained in the Chairman's Statement, the Managing Director's Review and the Operating and Financial Review.

Results

The loss for the year after taxation amounted to £3.3m (2003: £0.2m). A review of the results for the year is included in the Chairman's Statement, the Managing Director's Review and the Operating and Financial Review. There is no dividend for the year.

Donations

Through the Group's Football Pools and Lotteries, more than £3.0m was generated for good causes and charities in the year. Specific charitable donations totalling over £70,000 were made to a small number of charitable causes. Details of these donations may be found on page 10. The Group made no political donations during the year.

Employees

The Directors recognise the importance of providing employees with information on matters of concern to them, enabling employees to improve their performance and make an active contribution to the achievement of the Group's business objectives. This is accomplished through formal and informal briefings, meetings and the employee magazine. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. The Group's Investor In People (IIP) accreditation reflects the progressive training and development programmes that are in place within the business.

The Group is committed to equality of opportunity and dignity at work for all, irrespective of race, colour, creed, ethnic or national origins, gender, marital status, sexuality, disability, class or age. It ensures that recruitment and promotion decisions are made solely on the basis of suitability for the job.

It is the policy of the Group to comply with the requirements of the Disability Act 1995 in offering equality of opportunity to disabled persons applying for employment, selection being made on the basis of the most suitable person for the job in respect of experience and qualifications. Training, career development and promotion are offered to all employees on the basis of their merit and ability. Every effort is made to continue to employ, in the same or alternative employment, and where necessary to retrain, employees who become disabled during their employment with the Group.

Directors and their interests in the shares of the Company

The Directors who held office during the year had the following beneficial interests in the share capital of the Company:

	Personal holding	
	31 December 2004	31 December 2003
David Mathewson	3,500,000	3,500,000
Roger Withers	500,665	500,665
George Rushton (resigned 8 November 2004)	N/A	—
Gary Speakman	950,000	500,000
Kathryn Revitt	—	—

There have been no changes in these interests in the period between 31 December 2004 and 8 April 2005.

Details of options granted or exercised for the year ended 31 December 2004 are set out in the Remuneration Report on page 17.

Substantial shareholdings

On 8 April 2005, the following interests representing 3% or more of the issued share capital of the Company had been notified to the Company:

	No of ordinary shares held	% held
Bank of Scotland	168,282,663	28.4
Newby Manor Limited	171,282,663	28.9
Total of substantial shareholdings	339,565,326	57.3

Policy on payment of creditors

The Group does not follow any code or standard on payment practices, and there is no fixed policy for payment for goods and services. Payment is made promptly once authorisation of the invoice is obtained.

For the Group, creditor payment days outstanding at 31 December 2004 were 39 days (2003: 44 days). For the Company, creditor payment days outstanding at 31 December 2004 were 8 days (2003: 7 days).

Post balance sheet events

A contract for the provision of outsourced call centre services has been terminated subsequent to the end of the financial year. In accordance with the provisions of that contract, £0.6m has become payable and will be charged in the financial statements for the year ending 31 December 2005.

Annual General Meeting

The Notice convening the Annual General Meeting (AGM) of the Company on 24 May 2005 is being sent to shareholders with this report.

In accordance with the Articles of Association of the Company, Gary Speakman retires by rotation and offers himself for re-appointment at the AGM. A profile of Gary Speakman appears on page 11.

Pursuant to section 80 of the Companies Act 1985, it is proposed in Resolution 5 (item 5 in the Notice) to grant the Directors authority for a period of five years to allot relevant securities up to a maximum nominal amount of £9,646,293. This figure represents approximately 32.5% of the total ordinary share capital of the Company in issue as at 18 April 2005. The Directors have no present intention of exercising the authority, except for granting options under the Sportech Share Option Scheme.

Pursuant to section 95 of the Companies Act 1985 it is proposed in Resolution 6 (item 6 in the Notice) to authorise the Directors to allot equity securities for cash without first being required to offer such securities to existing shareholders in accordance with the provisions of that Act. This authority relates to securities issued by way of rights or otherwise on a pre-emptive basis and, in addition, allotments to equity securities up to a maximum nominal amount of £1,480,185, representing approximately 5% of the total ordinary share capital of the Company in issue as at the date of the Notice of the AGM and will expire on the earlier of the next AGM and 15 months after the passing of this Resolution.

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the AGM.

By Order of the Board



Gary Speakman
Company Secretary
18 April 2005

Remuneration Report

For the year ended 31 December 2004

Compliance with best practice

Sportech seeks to apply best practice in remuneration policy.

Composition of the Remuneration Committee

The Remuneration Committee (the Committee) is made up of the Non-executive Directors only, including for this purpose Roger Withers, and was in place for the whole of the year under review. None of the Committee has any personal financial interest (other than as a shareholder), conflicts of interest from cross-Directorships (except as regards Roger Withers in his interim capacity) or day to day involvement in the running of the business. The Committee's role is to set the remuneration policy for the Executive Directors and to be advised of the remuneration packages of Senior Executives. The Committee makes its proposals following consultation with the Managing Director (on remuneration other than his own) and is entitled to seek professional advice from outside the Group.

David Mathewson has chaired the Committee throughout the financial year. The Managing Director is invited to attend meetings when appropriate, although he is not present when matters affecting his own remuneration are discussed.

The Non-executive Directors do not participate in any incentive, pension or benefit schemes of the Company and their remuneration is determined by the Board.

Remuneration policy for Executive Directors and Senior Executives

The Committee aims to ensure that the remuneration packages offered to Executive Directors and Senior Executives are designed to:

- be competitive and to attract, retain and motivate Executives of the right calibre;
- reflect their responsibility; and
- incorporate a significant element of pay linked to the achievement of key business objectives and increased shareholder value.

In considering its policy, the Committee has given full consideration to the provisions of the Combined Code. The main component parts of the remuneration packages for Executive Directors and Senior Executives are as follows:

Basic annual salary

An individual's basic salary is reviewed and determined by the Committee annually, taking into account external research and his or her performance.

Performance related bonus

For 2005, the Executive Directors and Senior Executives will be rewarded on the basis of a two-part bonus structure, reflecting the achievement of profit targets and key business objectives. The total of such bonus payments will be limited to 50% of basic salary.

Pension arrangements

All Senior Executives are members of the Sportech defined contribution scheme.

Share option scheme

A share option scheme is in place, the rules of which are designed to comply with the best practice provisions annexed to the listing rules of the UK Listing Authority and current guidelines of institutional shareholders. The level of grant to any individual is at the discretion of the Remuneration Committee. The Scheme is subject to an overall limit contained in the rules of the Scheme which restricts the number of unissued ordinary shares over which options may be granted in any ten year period to 10% of the Company's issued share capital.

The exercise of the share options granted in 2001 and 2002 is subject to the market value of the shares being not less than 35.0p for a period of five consecutive dealing days at any time in the period of six months prior to the date the option was first exercised. The Remuneration Committee considered that this share price benchmark was too arbitrary and not in line with the Remuneration Committee's desire to see strong earnings growth before the options should become exercisable. Taking into account the particular circumstances of the Company, the Remuneration Committee considered that it would be preferable to adjust the performance targets applicable to future grants to require demanding earnings per share growth compounded over a three year period during the life of the option of 20%, 15% and 10% per annum for consecutive years, and these criteria have been applied to the options granted in 2003 and 2004.

Policy on contracts of service

Executive Directors' service contracts contain notice periods of not more than one year. Unless terminated beforehand, contracts run until age 65.

	Contract date	Unexpired term	Notice period	Special contractual termination provisions
Gary Speakman	30 January 2002	N/A	1 year	None
David Mathewson	30 January 2002	N/A	3 months	None
Kathryn Revitt	30 January 2002	N/A*	N/A	None
Roger Withers	30 January 2002	N/A	3 months	None

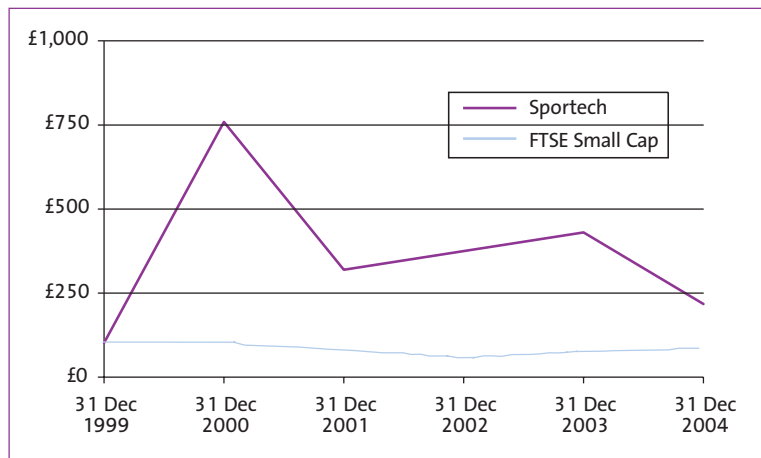
* the contract under which Kathryn Revitt's services are provided to the Company continues from each Annual General Meeting at which she is re-appointed as a Director until the Annual General Meeting at which she is required to retire by rotation.

Policy on external appointments

Sportech recognises that its Directors are likely to be invited to become Non-executive Directors of other companies and that such exposure can broaden their experience and knowledge, which will benefit the Company. Executive Directors are therefore allowed to accept Non-executive appointments with the Board's prior permission, as long as these are not likely to lead to conflicts of interest.

Performance graph

The following graph demonstrates how £100 invested in Sportech PLC as at 31 December 1999 has grown compared with the same investment in a fund mirroring the make-up of the FTSE Small Cap index:



The FTSE Small Cap index has been chosen as it is the index most closely aligned to Sportech.

Remuneration Report

For the year ended 31 December 2004

Audited information

The remainder of the Remuneration Report is audited information.

Executive Directors' remuneration

Details of each Director's remuneration for the year to 31 December 2004 are given below:

	Year of appointment	Fees/salary £000	Compensation for loss of office £000	Taxable benefits ⁽⁴⁾ £000	Bonuses £000	2004 Total £000	2003 Total £000
Executive:							
George Rushton ⁽¹⁾	2003	171	100	1	—	272	24
Roger Withers ⁽²⁾	2000	25	—	—	—	25	25
Gary Speakman	2000	168	—	1	—	169	236
Non-executive:							
David Mathewson	1992	75	—	—	—	75	50
Kathryn Revitt ⁽³⁾	2000	—	—	—	—	—	—
Aggregate emoluments		439	100	2	—	541	335
Fees paid to third parties ⁽³⁾						25	25

(1) George Rushton was a Director until 8 November 2004.

(2) Prior to 8 November 2004, Roger Withers acted in a Non-executive capacity.

(3) The services of Kathryn Revitt are provided through a consultancy agreement between the Company and Hemway Limited. Payments to Hemway Limited amounted to £25,000 in 2004 (2003: £25,000).

(4) Taxable benefits comprise various insurance policies.

Two Directors (2003: one Director) were members of a defined contribution scheme during the year. Contributions paid by the Company in respect of these Directors were as follows:

	2004 £000	2003 £000
George Rushton	22	—
Gary Speakman	13	12
	35	12

Audited information (continued)

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors. The options held by the Directors are as follows:

	1 January 2004	Granted	Exercised	Lapsed	31 December 2004
George Rushton	2,500,000	2,500,000	—	(5,000,000)	—
Gary Speakman	3,600,000	900,000	—	—	4,500,000

Details of the options are as follows:

	Exercise price	Gains on exercise price 2004	Date from which exercisable	Expiry date	Gary Speakman
Granted on 10 April 2001	14.75p	—	10 April 2004	9 April 2011	1,200,000
Granted on 8 March 2002	17.42p	—	8 March 2005	7 March 2012	1,200,000
Granted on 25 March 2003	12.25p	—	25 March 2006	24 March 2013	1,200,000
Granted on 27 April 2004	13.25p	—	27 April 2007	26 April 2014	900,000
					4,500,000

Exercise of the April 2001 and March 2002 options is subject to the market value of the shares being not less than 35.0p for a period of five consecutive dealing days at any time in the period of six months prior to the date the option is first exercised.

Exercise of the March 2003 options is subject to growth in earnings per share compounded over a three year period from 2002 of 20%, 15% and 10% per annum.

Exercise of the April 2004 options is subject to growth in earnings per share compounded over a three year period from 2003 of 20%, 15% and 10% per annum.

The market price of the ordinary shares at 31 December 2004 was 7.75p and the range during the year was 7.5p to 20.0p.



David Mathewson

Chairman of the Remuneration Committee

18 April 2005

Corporate governance compliance statement

The Company has complied throughout the financial year with the provisions set out in section 1 of the 2003 Code, except as explained below.

Best practice in corporate governance

The Board supports best practice in corporate governance and the policy of the Board has been to manage the affairs of the Company in accordance with the principles of "The Combined Code: Principles of Good Governance and Code of Best Practice" (the Combined Code issued in 2003) annexed to the UK Listing Authority Listing Rules, so far as the Board believes it is practical given the small size of the Company's Board. This statement describes how the Company applies the principles of the Combined Code.

Board of Directors and Committee structure

The Board is responsible for setting the Company's strategic objectives and for managing the Company's activities. The Board met on eleven occasions during the review period. Since November 2004 the Board has comprised the Non-executive Chairman, the Acting Managing Director, the Finance Director and one other Non-executive Director. The Acting Managing Director was a Non-executive Director until November 2004, and is acting as Managing Director in an interim capacity until the appointment of a permanent Chief Executive; after such appointment he will revert to his previous Non-executive role. Although the Board and its committees do not contain independent Non-executive Directors as defined by the Code, nevertheless they bring strong independent judgement and considerable knowledge and experience to the Board's deliberations on matters of strategy and governance. The biographical details on page 11 demonstrate the breadth of experience of the Board. Independent professional advice may be taken by the Directors as required. Since November 2004, Kathryn Revitt has assumed the role of Senior Non-executive Director.

The division of responsibility between the Chairman and the Managing Director is clearly defined and has been agreed by the Board. The Chairman is primarily responsible for the workings of the Board and for shareholder communication. The Managing Director is responsible for running the Group's business and for implementing Board strategy and policy. The Chairman also ensures that Directors maintain the appropriate skills and knowledge to fulfil their responsibilities and the Company provides the necessary resources to Directors to enable this to be achieved. The Company Secretary advises the Chairman, and the Board, on all governance matters. The Company maintains insurance cover in respect of legal action against its Directors.

The Board has in place a number of key processes designed to ensure that management responsibilities are clear. Executive Directors distribute relevant information and key financial reports to Board members in advance of each meeting, together with other materials required to facilitate proper consideration of business issues. A schedule of reserved matters for the Board has been established and communicated to the Senior Management teams:

- the detailed operations of the business are overseen by a Management Committee which is chaired by the Managing Director;
- the Board has determined that it is appropriate for matters which would normally be delegated to a Nomination Committee to be referred to the full Board. The Board, acting as a Nomination Committee, meets at least once a year to carry out the selection process for new Board members and to propose any new appointments to the Board, whether Executive or Non-executive;
- the Audit Committee of the Board comprises the Non-executive Directors and is chaired by David Mathewson, who is also Chairman of the Company and whom the Board is satisfied has recent and relevant financial experience. The Committee meets at least three times a year to consider aspects of internal control, accounting policies and both the interim and annual financial results. The Finance Director and other senior management attend the Committee as appropriate.

The Audit Committee is responsible for the relationship with the external auditors. The Audit Committee considers the nature and extent of non-audit services provided by the auditors, in order to seek to balance the maintenance of objectivity, access to applicable technical expertise and value for money. During the course of the year the auditors have provided tax advisory services and have also audited the Company's 20-F filing in the USA. Non-audit engagements are only awarded to the auditors with the agreement of the Committee. The auditors are also subject to professional standards that safeguard the integrity of their auditing role.

The Committee meets as required with the external auditors without the presence of the Executive Directors; and

- the Remuneration Committee of the Board also comprises the Non-executive Directors, including for this purpose Roger Withers, and is chaired by David Mathewson. The purpose of the Committee is to ensure that the remuneration of Executive Directors and Senior Executives, together with terms and conditions of employment, is sufficient to recruit and retain individuals of the calibre required to ensure profitable growth of the business. The Remuneration Committee gives full consideration to the principles of the Combined Code. The Remuneration Report is set out on pages 14 to 17.

The terms of reference of the Nomination, Audit and Remuneration Committees are available on request from the Company Secretary.

Board and Committee meetings

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings held in year	11	3	2	1
Executive Directors				
George Rushton (to 8 November 2004)	9	N/A	N/A	N/A
Gary Speakman**	11	N/A	N/A	N/A
Roger Withers*	11	3	2	1
Non-executive Directors				
David Mathewson	11	3	2	1
Kathryn Revitt	11	3	2	1

* Non-executive Director until 8 November 2004. Executive Director from 8 November 2004.

** Gary Speakman attended all Audit Committee meetings during the year at the invitation of the Committee.

Board performance evaluation

The Board does not currently undertake formal annual evaluation processes to evaluate its own performance, the performance of the Board Committees or the performance of individual Directors. The Chairman has instituted a process of self-evaluation and it is intended that this will be in place during the 2005 financial year.

Investor relations

There is regular dialogue with shareholders through a planned programme of investor relations which includes formal presentations of the Company's results by the Managing Director and Finance Director. Meetings also take place with institutional investors and analysts on a regular basis and there is regular communication with shareholders through the annual and interim reports and a corporate website (www.sportechplc.com).

All shareholders have the opportunity to question the Board at the Annual General Meeting both formally and informally.

Internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. All subsidiary companies utilise the services of a common accounting centre and Group services function, and all companies in the Group adhere to a common standard of control. Controls are monitored by management review and by a programme of internal audits.

The Board meets regularly and its agenda contains an item on governance, which includes consideration of points regarding risk and control. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. Authorisation procedures in respect of matters such as treasury transactions, investments and capital expenditure are clearly defined.

The Audit Committee reviews the effectiveness of the internal control environment of the Group. It receives reports from the internal and external auditors, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high level review of the arrangements for internal control. Significant risk issues are referred to the Board for consideration.

The high level risks relating to the gaming businesses are controlled centrally via an ongoing process for identifying, evaluating and managing the Group's significant risks. A Schedule of Strategic Risks is produced, maintained and presented to the Audit Committee and Board. Internal audit services have been outsourced and are provided by KPMG LLP. A programme of internal audit work is undertaken based upon the Schedule of Strategic Risks and the results of these audits are presented to the Audit Committee.

Internal control (continued)

To manage lower level risks, a risk management programme is in place, supported by a business control and risk self-assessment process and a business continuity plan. The risk management programme places responsibility on managers to identify risks facing each business unit and for implementing procedures to mitigate these risks.

The risk appraisal process has been reviewed by the Board and accords with the "Turnbull guidance". The Audit Committee and the Board have reviewed the effectiveness of the internal controls of the Group for the year ended 31 December 2004 up to the date of approval of the accounts, and this review covered financial, operational, risk management and compliance controls.

The Combined Code states, that the Audit Committee should review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. This subject was not considered formally by the Committee during the course of the year but is currently under consideration and an appropriate policy is expected to be approved in the near future.

Monthly financial reporting

The Group performs an annual strategy and budgeting process, and the Board approves the annual Group budget as part of its normal responsibilities. The Group results are reported monthly to the Board. Revised forecasts are produced for the Board whenever significant financial trends are identified.

Going concern

After making enquiries, the Directors have concluded that the Company and the Group have adequate resources to continue in operation for the foreseeable future. For this reason the going concern basis has been adopted in preparing the financial statements.

Statement of Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

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

The Directors are responsible for the maintenance and integrity of the Company's corporate website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By Order of the Board



Gary Speakman
Company Secretary
18 April 2005

Independent Auditors' Report

To the members of Sportech PLC

We have audited the financial statements which comprise the consolidated profit and loss account, the reconciliation of movement in Group shareholders' funds, the balance sheets, the consolidated cash flow statement and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Remuneration Report (the auditable part).

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities. The Directors are also responsible for preparing the Remuneration Report.

Our responsibility is to audit the financial statements and the auditable part of the Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's Statement, the Managing Director's Review, the Operating and Financial Review, the Corporate and Social Responsibility Statement, the Directors' Report, the unaudited part of the Remuneration Report and the Corporate Governance Statement.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2004 and of the loss and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Liverpool

18 April 2005

Consolidated Profit and Loss Account

For the year ended 31 December 2004

	Notes	2004 £m	2003 (as restated, see note 2) £m
Group turnover	2,3	497.0	330.4
Cost of sales	2	(439.9)	(275.5)
Gross profit		57.1	54.9
Net operating expenses	4	(50.8)	(45.4)
Operating profit before exceptional restructuring costs and amortisation of goodwill		16.7	19.9
Exceptional restructuring costs	4,5	(1.2)	(1.3)
Amortisation of goodwill		(9.2)	(9.1)
Operating profit		6.3	9.5
Profit on sale of Technology Patents	6	—	0.6
Net interest payable and similar items	7	(7.1)	(6.6)
(Loss)/profit on ordinary activities before taxation	8	(0.8)	3.5
Tax on (loss)/profit on ordinary activities	11	(2.5)	(3.7)
Retained loss for the financial year	12,23	(3.3)	(0.2)
Earnings per share:	13		
Basic and diluted		(0.56)p	(0.04)p
Pre-amortisation of goodwill – basic and diluted		1.00p	1.49p

All operations are continuing.

The Company has no other recognised gains or losses other than the loss for the financial year shown above.

There is no difference between the results shown above and their historical cost equivalents.

Reconciliation of Movement in Group Shareholders' Funds

For the year ended 31 December 2004

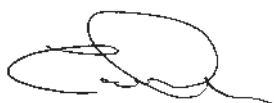
	2004 £m	2003 £m
Shareholders' funds at 1 January 2004	31.3	31.5
Loss for the financial year	(3.3)	(0.2)
Shareholders' funds at 31 December 2004	28.0	31.3

Balance Sheets

As at 31 December 2004

	Notes	Group		Company	
		2004 £m	2003 £m	2004 £m	2003 £m
Fixed assets:					
Intangible assets	14	137.3	146.4	1.3	1.2
Tangible assets	15	9.0	9.1	0.5	0.7
Investments	16	—	—	167.1	167.1
		146.3	155.5	168.9	169.0
Current assets:					
Debtors					
– due within one year	17	4.7	9.5	1.4	24.7
– due after more than one year	17	6.4	0.7	5.9	—
Cash at bank and in hand	18	2.4	4.1	—	—
		13.5	14.3	7.3	24.7
Creditors: amounts falling due within one year	19	(30.2)	(44.3)	(52.5)	(71.0)
Net current (liabilities)		(16.7)	(30.0)	(45.2)	(46.3)
Total assets less current liabilities		129.6	125.5	123.7	122.7
Creditors: amounts falling due after more than one year	20	(101.6)	(94.2)	(101.0)	(94.0)
		28.0	31.3	22.7	28.7
Capital and reserves:					
Called up share capital	22	29.6	29.6	29.6	29.6
Profit and loss account	23	(1.6)	1.7	(6.9)	(0.9)
Total equity shareholders' funds		28.0	31.3	22.7	28.7

The financial statements on pages 22 to 43 were approved by the Board of Directors on 18 April 2005 and were signed on its behalf by



Gary Speakman
Director
18 April 2005

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	Notes	2004		2003	
		£m	£m	£m	£m
Net cash inflow from operating activities	24		14.3		18.6
Returns on investments and servicing of finance:					
Interest received		0.5		0.2	
Interest paid		(7.3)		(6.5)	
Net cash outflow from returns on investments and servicing of finance			(6.8)		(6.3)
Taxation			(2.7)		(3.1)
Capital expenditure and financial investment:					
Purchase of tangible fixed assets		(1.9)		(2.6)	
Purchase of intangible fixed assets		(0.3)		(0.4)	
Sale of tangible fixed assets		0.3		0.1	
Net proceeds of sale of Technology Patents	6	—		0.6	
Net cash outflow from capital expenditure and financial investment			(1.9)		(2.3)
Cash inflow before financing			2.9		6.9
Financing:					
Net loans drawn/(repaid)	25	2.0		(10.0)	
Net cash inflow/(outflow) from financing			2.0		(10.0)
Increase/(decrease) in net cash	25		4.9		(3.1)

Notes to the Financial Statements

For the year ended 31 December 2004

1. Accounting policies

A summary of the more important Group accounting policies is set out below. These have been applied consistently throughout the year and the preceding period, with the exception of the changes set out in note 2 below.

(a) Basis of accounting

The accounts are prepared on the historical cost basis of accounting in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom.

(b) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries drawn up for the 53 week period from 3 January 2004 to 7 January 2005 (2003: 52 week period).

(c) Turnover

Turnover represents:

- the value of entry fees receivable in respect of Football Pools based on the date of the event;
- the value of bets received in relation to fixed-odds betting and casino gaming activities based on the date of the event; and
- the value of goods and services sold to external customers, including management fees to registered charities for the management of charity lotteries, exclusive of value added tax. Management fees to registered charities for the management of charity lotteries are based on sales estimates.

(d) Deferred income

Deferred income is recognised as the value of entry fees receivable in respect of competitions and sporting events held subsequent to the end of the financial period.

(e) Deferred taxation

Deferred tax is provided in full on all timing differences which result in either an obligation at the balance sheet date to pay more tax or a right to pay less tax. Deferred tax assets are only recognised to the extent that it is more likely than not they will crystallise. Assets and liabilities are calculated at rates expected to apply when they crystallise, and are not discounted.

(f) Foreign currencies

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Profits and losses on foreign exchange transactions are taken through the profit and loss account in the period in which they arise.

(g) Tangible fixed assets

Tangible fixed assets are carried at historical cost less accumulated depreciation.

(h) Depreciation

Depreciation is provided on a straight-line basis to write-off the cost of fixed assets over their anticipated useful lives at the following annual rates:

Long leasehold land	Nil
Long leasehold buildings	Over remaining estimated useful life (12 years)
Buildings' fixtures and fittings	4.0% – 20.0%
Plant, equipment and other fixtures and fittings	10.0% – 33.3%
Leasehold improvements	10.0% or the period of the lease, if shorter
Computers	14.3% – 33.3%
Motor vehicles	12.5% – 25.0%
Hand-held Pools bet capture equipment	8.3%

Notes to the Financial Statements

For the year ended 31 December 2004

1. Accounting policies (continued)

(i) Goodwill

Goodwill arising on consolidation represents the excess of the fair value of consideration given over the fair value of the separable net assets acquired. Goodwill is capitalised and is amortised on a straight-line basis over the shorter of 20 years or the anticipated life of the goodwill.

(j) Intangible assets

Other intangible fixed assets comprise externally generated costs incurred in respect of developing interactive television gaming products. Now that trading has commenced, these costs are amortised through the profit and loss account over their estimated useful lives (five years).

(k) Advance commissions

Advance commissions paid to television broadcasters in accordance with the terms of broadcasting contracts are held within prepayments and are recovered against commissions due to broadcasters over the life of the relevant contract. The Directors consider that sufficient revenue will be generated over the lives of the contracts concerned to recover these payments. Further details in respect of these assets are given in note 17.

(l) Development costs

The Group has capitalised design and development costs relating to on-line casinos and interactive television offerings. These costs are being amortised over their anticipated useful lives (four years). Pre-design and development costs are charged to the profit and loss account as incurred.

(m) Impairment of fixed assets and goodwill

Fixed assets and goodwill are subject to an annual review for impairment in accordance with FRS 11 "Impairment of fixed assets and goodwill". Any impairment losses are recognised in the profit and loss account in the year in which they occur.

(n) Leased assets

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Tangible fixed assets acquired under hire purchase agreements are capitalised and depreciated over their expected useful lives as it is anticipated that the option to purchase the asset outright will be taken. The interest element of the rental obligations is charged to the profit and loss account over the period of the agreement.

(o) Pension contributions

The Group operates two pension scheme arrangements for its employees. In respect of the defined contribution scheme, payments to employees' defined contribution schemes are charged to the profit and loss account as incurred. For the defined benefit scheme, pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the Group benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme. The Group has adopted the transitional arrangements of FRS 17 "Retirement benefits".

(p) Financial instruments

The Group uses derivative financial instruments to reduce exposure to foreign currency risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

(q) Share options

The costs in relation to the Group's share options are charged to the profit and loss account in accordance with UITF 17 (revised). The charge is based on the difference, if any, between the market value of the shares at the date of the grant to any consideration to be received from the employee, over the period to which the employee performance relates. Where awards are contingent upon future events, an assessment of the likelihood of these conditions being achieved is made at the end of each reporting period.

2. Changes in accounting policy

During the year ended 31 December 2004, the Company has made changes to its accounting policies with respect to segmental reporting and to turnover.

- a) In prior periods, the Company's online casino has been reported within Soft Gaming. The Company has reviewed the playing patterns on its online casino and concluded that it would be more appropriate to report it within Betting. This change will only affect the segmental reporting note, and will not change the profit and loss account in aggregate. In respect of the prior year, the impact is to move £3.7m of turnover, which in 2003 was equivalent to gross win, from Soft Gaming to Betting. The impact for the current year is to move £8.8m of gross win from Soft Gaming to Betting.
- b) At the same time, the basis of turnover disclosure for the online casino business has been reviewed. Previously turnover for this business was defined as the gross win achieved; following a review of the rationale underlying this basis and to bring online casino turnover into line with other similar internet based games that the Company offers, as well as that for non-internet based products, the basis of reporting turnover is now believed to be best defined as the amounts customers spend with the business, rather than the amount of customer spend net of winnings returned to them. In respect of the prior year, the impact is to add £122.5m to both turnover and cost of sales. There is no impact on profit for the prior year. The impact for the current year is to add £277.5m to turnover and cost of sales. There is no impact on profit.

The effect of these changes in accounting policy on the comparatives for the year ended 31 December 2003 is as follows:

	As originally stated £m	Adjustment £m	As restated £m
Turnover:			
Soft Gaming	106.2	(3.7)	102.5
Betting	101.7	126.2	227.9
	207.9	122.5	330.4
Cost of sales	153.0	122.5	275.5
Operating profit before exceptional restructuring costs and amortisation of goodwill:			
Soft Gaming	3.0	(0.6)	22.4
Betting	(3.1)	0.6	(2.5)
	19.9	—	19.9
Net assets:			
Soft Gaming	45.5	(0.3)	45.2
Betting	(14.2)	0.3	(13.9)
	31.3	—	31.3

Notes to the Financial Statements

For the year ended 31 December 2004

3. Segmental reporting

	2004 £m	2003 (as restated, see note 2) £m
Turnover:		
Soft Gaming	94.6	102.5
Betting	402.4	227.9
	497.0	330.4
(Loss)/profit on ordinary activities before taxation:		
Soft Gaming	18.8	22.4
Betting	(2.1)	(2.5)
Operating profit before exceptional restructuring costs and amortisation of goodwill	16.7	19.9
Exceptional restructuring costs*	(1.2)	(1.3)
Amortisation of goodwill*	(9.2)	(9.1)
Operating profit	6.3	9.5
Profit on sale of Technology Patents	—	0.6
Net interest payable and similar items	(7.1)	(6.6)
	(0.8)	3.5
Net assets:		
Soft Gaming	43.4	45.2
Betting	(15.4)	(13.9)
	28.0	31.3

* principally Soft Gaming

Virtually all turnover is derived from United Kingdom residents or arises on competitions based within the United Kingdom. The customer base of the Group's online casino business operated by LWL Management NV based in the Netherlands Antilles, which generated turnover of £277.5m (2003: £126.2m), predominantly resides in the United Kingdom.

4. Net operating expenses

	2004 £m	2003 £m
Distribution costs	0.1	0.1
Other administrative expenses	40.3	34.9
Exceptional restructuring costs (see note 5)	1.2	1.3
Amortisation of goodwill on acquisitions	9.2	9.1
Administrative expenses	50.7	45.3
	50.8	45.4

5. Exceptional restructuring costs

	2004 £m	2003 £m
Exceptional restructuring costs – operating	1.2	1.3

Exceptional restructuring costs in the year relate to the establishment of an in-house call centre operation within the Betting segment, further rationalisation of the football pools business operating cost base within the Soft Gaming segment, and rationalisation of interactive development teams consequent upon the transition from development stage to trading stage.

Exceptional restructuring costs in the prior year related to the transfer of the Zettlers Football Pools operation from London to Liverpool and also to costs incurred in respect of a reorganisation subsequent to the sale of the Technology Patents business.

6. Profit on sale of Technology Patents

During the prior year the Group sold its portfolio of Technology Patents for \$1.5m (£0.9m).

Disposal costs of £0.3m resulted in a profit on sale of £0.6m.

7. Net interest payable and similar items

	2004 £m	2003 £m
Interest receivable	0.5	0.2
Interest payable on bank loans and overdrafts	(7.3)	(6.5)
Amortisation of interest rate cap premium	(0.3)	(0.3)
	(7.1)	(6.6)

8. (Loss)/profit on ordinary activities before taxation

	2004 £m	2003 £m
(Loss)/profit on ordinary activities before taxation is stated after charging:		
Profit on sale of Technology Patents	—	0.6
One-off Football Pools marketing campaign	3.2	—
Depreciation of tangible fixed assets		
– owned assets	2.4	2.1
Amortisation of goodwill	9.2	9.1
Amortisation of intangible fixed assets	0.2	—
Other operating lease rentals – land and buildings	0.3	0.3
Group audit fees and expenses	0.1	0.1
Fees paid to auditors for non-audit services	0.1	0.3

The fees of the auditors in relation to their audit of the Holding Company are £15,000 (2003: £15,000). The fees paid to auditors for non-audit services relate to taxation advisory services and the audit of the Group's 20-F filing in the USA.

9. Staff costs

Average monthly number of employees comprised:	2004 Number	2003 Number
Sales and marketing	141	136
Operations and distribution	264	303
Administration	100	146
	505	585
Their aggregate remuneration comprised:	£m	£m
Wages and salaries	10.0	11.0
Social security costs	1.0	0.9
Other pension costs	0.6	0.6
	11.6	12.5

10. Directors' remuneration

	2004 £000	2003 £000
Emoluments	441	613
Compensation for loss of office	100	309
Defined contribution scheme payments	35	26
	576	948
Fees paid to third parties	25	25
Emoluments payable to the highest paid Director are as follows:		
Aggregate emoluments	172	278
Compensation for loss of office	100	309
Defined contribution scheme payments	22	14

Details of individual Directors' remuneration and share options granted are given in the auditable part of the Remuneration Report on pages 16 and 17. This information forms part of the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2004

11. Tax on (loss)/profit on ordinary activities

	2004 £m	2003 £m
Current tax:		
UK corporation tax at 30% (2003: 30%)	2.4	3.4
Adjustments in respect of prior periods	(0.1)	—
Total current tax	2.3	3.4
Deferred tax:		
Current year	0.2	0.3
Total deferred tax	0.2	0.3
Total taxation charge	2.5	3.7

The current tax for the period is higher (2003: higher) than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2004 £m	2003 £m
(Loss)/profit on ordinary activities before tax	(0.8)	3.5
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003: 30%)	(0.2)	1.0
Effects of:		
– goodwill amortisation not deductible for tax purposes	2.6	2.6
– other permanent differences	0.2	0.1
– origination and reversal of timing differences	(0.2)	(0.3)
– adjustments to tax in respect of prior periods	(0.1)	—
	2.3	3.4

The tax charge for the year includes £Nil (2003: £0.2m) in relation to non-operating exceptional items.

12. Losses of holding company

Of the loss for the financial year, £6.0m (2003: £4.8m) is dealt with in the accounts of Sportech PLC. The Directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and have not presented a profit and loss account for the Company alone.

13. Earnings per share

The calculations of earnings per share are based on the following profits attributable to ordinary shareholders and the weighted average numbers of shares:

	2004			2003		
	Earnings £m	Weighted average number of shares '000	Per share amount Pence	Earnings £m	Weighted average number of shares '000	Per share amount Pence
Basic and diluted earnings per share excluding goodwill amortisation	5.9	592,074	1.00p	8.9	592,074	1.49p
Effect of goodwill amortisation	(9.2)	592,074	(1.56)p	(9.1)	592,074	(1.53)p
Basic and diluted earnings per share	(3.3)	592,074	(0.56)p	(0.2)	592,074	(0.04)p

14. Intangible fixed assets

	Goodwill £m	Other £m	Total £m
Group			
Cost:			
At 1 January 2004	174.8	1.2	176.0
Additions	—	0.3	0.3
At 31 December 2004	174.8	1.5	176.3
Amortisation:			
At 1 January 2004	29.6	—	29.6
Provided during the period	9.2	0.2	9.4
At 31 December 2004	38.8	0.2	39.0
Net book value at 31 December 2003	145.2	1.2	146.4
Net book value at 31 December 2004	136.0	1.3	137.3
Company			
Cost:			
At 1 January 2004	—	1.2	1.2
Additions	—	0.3	0.3
At 31 December 2004	—	1.5	1.5
Amortisation:			
At 1 January 2004	—	—	—
Provided during the period	—	0.2	0.2
At 31 December 2004	—	0.2	0.2
Net book value at 31 December 2003	—	1.2	1.2
Net book value at 31 December 2004	—	1.3	1.3

The goodwill arising on the acquisition of Littlewoods Gaming is being amortised on a straight-line basis over 20 years. This is the period over which the Directors estimate that the value of the underlying businesses are expected to exceed the values of the identifiable net assets. As part of the acquisition agreement for Littlewoods Gaming, Littlewoods Gaming has been licensed by Littlewoods Limited (formerly The Littlewoods Organisation), at no cost, to use “Littlewoods” as part of the Littlewoods Gaming branding for betting, gaming and lottery products. The agreement will run until 3 September 2010 unless previously terminated (for material breach or insolvency) or renewed by agreement between the parties. Having completed an annual impairment review, the Directors consider that the projected future net income streams support a 20 year amortisation period.

The goodwill arising on the acquisition of the Zettors Pools business is being amortised on a straight-line basis over three years. This is the period over which the Directors estimate that the value of the underlying business is expected to exceed the values of the identifiable net assets.

The “other” intangible fixed assets relate to costs incurred in respect of developing interactive television gaming products. These are being amortised on a straight-line basis over their estimated useful life (five years).

Notes to the Financial Statements

For the year ended 31 December 2004

15. Tangible fixed assets

	Long leasehold land and buildings £m	Plant and machinery £m	Work in progress £m	Total £m
Group				
Cost:				
At 1 January 2004	1.8	15.0	1.0	17.8
Additions	—	1.7	0.9	2.6
Reclassifications	—	1.0	(1.0)	—
Disposals	—	(1.0)	—	(1.0)
At 31 December 2004	1.8	16.7	0.9	19.4
Depreciation:				
At 1 January 2004	0.2	8.5	—	8.7
Provided during the period	0.2	2.2	—	2.4
Disposals	—	(0.7)	—	(0.7)
At 31 December 2004	0.4	10.0	—	10.4
Net book value at 31 December 2003	1.6	6.5	1.0	9.1
Net book value at 31 December 2004	1.4	6.7	0.9	9.0

Included in fixed assets are £0.8m (2004: £0.2m) of assets held under finance leases.

	Long leasehold land and buildings £m	Plant and machinery £m	Work in progress £m	Total £m
Company				
Cost:				
At 1 January 2004 and 31 December 2004	—	0.8	—	0.8
Depreciation:				
At 1 January 2004	—	0.1	—	0.1
Provided during the period	—	0.2	—	0.2
At 31 December 2004	—	0.3	—	0.3
Net book value at 31 December 2003	—	0.7	—	0.7
Net book value at 31 December 2004	—	0.5	—	0.5

16. Investments

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Investments in Group companies:				
At 1 January 2004 and 31 December 2004	—	—	167.1	167.1

Investments in Group companies are stated at cost.

16. Investments (continued)

Details of the investments in which the Company directly or indirectly holds more than 10% of the nominal value of any class of share capital are:

Name of company	Holding	Proportion of voting rights and shares held	Nature of business
Littlewoods Gaming Limited	Ordinary shares	100%	Intermediate holding company
Littlewoods Promotions Limited	Ordinary shares	100%	Betting and gaming
Littlewoods Leisure Limited	Ordinary shares	100%	Dormant
Littlewoods Leisure Marketing Services Limited	Ordinary shares	100%	Dormant
Littlewoods Competitions Company Limited	Ordinary shares	100%	Dormant
Littlewoods Lotteries Limited	Ordinary shares	100%	Management of charity lotteries
Littlewoods Pools Limited	Ordinary shares	100%	Dormant
Littlewoods of Liverpool Limited	Ordinary shares	100%	Asset hiring
Bet 247 Limited	Ordinary shares	100%	Gaming
Littlewoods Leisure.com Limited	Ordinary shares	100%	Dormant
UKCL Limited	Ordinary shares	100%	Dormant
Rodime Technologies Limited	Ordinary shares	100%	Dormant
LWL Management NV	Ordinary shares	100%	Gaming
Littlewoods Isle of Man Limited	Ordinary shares	100%	Gaming
Littlewoods Alderney Limited	Ordinary shares	100%	Gaming
Littlewoods Bet Direct Limited	Ordinary shares	100%	Dormant
Sportech Trustees Limited	Ordinary shares	100%	Pension fund trustee

All of these companies have been included in the consolidated financial statements and are incorporated in England and Wales with the exceptions of Rodime Technologies Limited (incorporated in Scotland), Littlewoods Isle of Man Limited (incorporated in the Isle of Man), LWL Management NV (incorporated in Netherlands Antilles) and Littlewoods Alderney Limited (incorporated in Alderney).

17. Debtors

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Amounts falling due within one year:				
Trade debtors	1.2	1.2	—	—
Amounts owed by Group companies	—	—	—	20.2
Other debtors	0.2	0.8	0.1	0.3
Prepayments	3.3	7.5	1.3	4.2
	4.7	9.5	1.4	24.7
Amounts falling due after more than one year:				
Prepayments ^(a)	5.9	—	5.9	—
Deferred tax ^(b)	0.5	0.7	—	—
	6.4	0.7	5.9	—

(a) Assets related to interactive television gaming products

Included in these financial statements are assets held in respect of the development of interactive television gaming products. The following costs were deferred and capitalised as at the year end:

	2004 £m	2003 £m
Debtors – prepayments recoverable within one year	0.7	3.5
Debtors – prepayments recoverable in more than one year	5.9	—
Tangible fixed assets	1.7	1.3
Intangible fixed assets – other	1.3	1.2
	9.6	6.0

Prepayments represent advance payments of commission to television broadcasters and together with tangible and intangible assets will be recovered from cash flows to be generated over the life of the interactive television gaming contracts.

Notes to the Financial Statements

For the year ended 31 December 2004

17. Debtors (continued)

(a) Assets related to interactive television gaming products (continued)

The level and timings of these cash flows have been forecast by the Directors based on estimates of viewers' participation and expenditure on the Group's interactive television offering in the period of the agreement which runs to February 2009.

(b) Deferred tax

Deferred tax comprises:

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Accelerated capital allowances	0.5	0.7	—	—
Movement in deferred tax asset during the year:				
At 1 January 2004	0.7	1.0	—	—
Amount charged to profit and loss	(0.2)	(0.3)	—	—
At 31 December 2004	0.5	0.7	—	—

18. Cash

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Cash balances held on behalf of registered charities ⁽¹⁾	2.1	1.8	—	—
Cash balance constituting committed security ⁽²⁾	0.3	1.3	—	—
Other cash balances	—	1.0	—	—
	2.4	4.1	—	—

⁽¹⁾ Cash balances held on behalf of registered charities relate to the sale of charity scratchcards in respect of charity lotteries which have not reached their final sale date and for which proceeds have not been passed to the charities concerned.

⁽²⁾ The cash balance constituting committed security relates to deferred payments which must be made under a contractual obligation of a subsidiary company. The contract is with Rehab Charity Lotteries, and relates to the running of charity lotteries.

19. Creditors: amounts falling due within one year

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Current installments due on loans	10.9	15.9	10.9	15.9
Bank overdrafts	0.3	6.9	1.0	5.6
Trade creditors	3.7	3.6	0.1	0.1
Amounts owed to Group companies	—	—	40.1	49.0
Corporation tax	1.3	1.7	—	0.1
Amounts payable under hire purchase contracts	0.3	—	—	—
Other taxes and social security costs	2.1	2.6	—	—
Accruals and deferred income	11.6	13.6	0.4	0.3
	30.2	44.3	52.5	71.0

20. Creditors: amounts falling due after more than one year

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Amounts due on hire purchase contracts	0.6	0.2	—	—
Bank loans	101.0	94.0	101.0	94.0
	101.6	94.2	101.0	94.0

Bank loans are repayable as follows:

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Within one year	10.9	15.9	10.9	15.9
Between one and two years	18.0	16.0	18.0	16.0
Between two and five years	83.0	78.0	83.0	78.0
	111.9	109.9	111.9	109.9

In order to finance the acquisition of Littlewoods Gaming, loans and overdrafts were arranged with and drawn from the Bank of Scotland. In respect of the loans, two separate loan facilities were negotiated:

- the first facility was for a term loan of £110.0m repayable over five years commencing 18 months from the draw down of the loan. £1.0m of scheduled payments were made in the year (2003: £16.0m). The balance remaining to be repaid on this facility at 31 December 2004 was £77.0m. The repayment terms of this loan have been renegotiated and at 31 December 2004, the loan was repayable by 31 December 2009; and
- the second was a facility for £30.0m repayable, in whole or in part, at the Company's discretion at 30 days notice but with a fixed repayment date, if this option was not exercised, of 31 December 2006. The balance remaining to be repaid on this facility at 31 December 2004 was £24.0m. The repayment terms of this loan have also been renegotiated and at 31 December 2004 the loan was repayable by 31 December 2009. No repayments were made during the year (2003: £Nil).

During the year ended 31 December 2002, further loans and working capital facilities were agreed with the Bank of Scotland to assist in the financing of the Group's investment in interactive developments:

- loan facilities of £11.0m were made available to the Company repayable, in whole or in part, at the Company's discretion but with a fixed repayment date, if this option was not exercised, of 31 December 2008. A further £3.0m has been drawn against this facility during the year in addition to the £6.0m drawn in 2003 and the £2.0m drawn in 2002, to make the total drawn £11.0m.

Since the end of the financial year, loan repayments have been renegotiated with the Bank of Scotland, and the bank loans are now repayable as follows:

Company and Group	2004 £m
Within one year	8.9
Between one and two years	18.0
Between two and five years	85.0
	111.9

Amounts due on hire purchase contracts are repayable as follows:

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Within one year	0.3	—	—	—
Between one and two years	0.3	—	—	—
Between two and five years	0.3	0.2	—	—
	0.9	0.2	—	—

Notes to the Financial Statements

For the year ended 31 December 2004

2.1. Financial instruments

The Group's financial instruments, other than derivatives, comprise bank loans, hire purchase agreements, bank overdraft and cash and term bank deposits, as well as trade debtors and creditors that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's future operations.

The Group also enters into derivative transactions (principally interest rate swaps, caps and floors, and forward foreign currency contracts). The purpose of such transactions is to manage the interest and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. Short-term debtors and creditors have been excluded from all the following disclosures, in accordance with FRS 13 "Derivatives and other financial instruments".

(a) Financial liabilities

It is the Group's policy to hedge its interest rate risk using interest rate swaps, floors and caps. An analysis of the Group's financial liabilities, all of which are denominated in sterling, is set out below:

	2004 £m	2003 £m
Fixed rate	0.9	0.2
Floating rate	112.3	116.9
Total	113.2	117.1
Fixed rate financial liabilities weighted averages:		
Interest rate (%)	6.1%	5.2%
Period for which rate is fixed (months)	40	60

Floating rates are based on LIBOR. For financial years 2004–2005, £50.0m of the first loan facility described in note 20 is hedged using an interest rate cap at 6%.

The maturity profile of the Group's borrowings is set out in note 20. All other financial liabilities are repayable within one year or on demand.

(b) Financial assets

Financial assets comprise cash at bank and term deposits of £2.4m (2003: £4.1m), further details of which can be found in note 18, and the interest rate cap noted in (a) of £0.3m (2003: £0.6m), which is included within Prepayments.

Term bank deposits are placed on a seven day rolling basis and earn interest at rates based on the Bank of England base rate. The cash at bank, which is on a floating rate, earns interest based on the Bank of England base rate.

All financial assets mature within one month of the year end, with the exception of the interest rate cap.

(c) Currency exposures

It is the Group's policy to hedge against foreign currency risk by entering into forward foreign currency contracts to eliminate the currency exposures that arise on transactions denominated in foreign currencies.

At both the current and prior period ends all amounts in the balance sheet were receivable or payable in pounds sterling, and hence the Group had no exposure to foreign currency movements at the year end. There are no foreign exchange hedges at the year end (2003: Nil).

21. Financial instruments (continued)

(d) Borrowing facilities

The Group has various available borrowing facilities, including the loan facilities set out in note 20. The undrawn committed facilities at 31 December 2004 in respect of which all conditions precedent had been met were as follows:

	2004 £m	2003 £m
Expiring in:		
– one year or less	5.7	0.7
– more than one year but less than two years	—	—
– more than two years	—	3.0
	5.7	3.7

(e) Fair values of financial assets and financial liabilities

The fair value of the financial assets and liabilities is not materially different from the book value, with the exception of the interest rate cap, which has a book value of £0.3m (2003: £0.6m) and a fair value of £Nil (2003: £Nil).

22. Called up share capital

	2004		2003	
	Number 000	£m	Number 000	£m
Authorised				
Ordinary shares of 5p each:				
At 1 January 2004 and 31 December 2004	785,000	39.3	785,000	39.3
Allotted, called up and fully paid				
Ordinary shares of 5p each:				
At 1 January 2004 and 31 December 2004	592,074	29.6	592,074	29.6

Potential issue of ordinary shares

Certain Directors and Senior Executives hold options to subscribe for shares in the Company at prices ranging from 12.25p to 17.42p under share option schemes approved by the shareholders. During 2004 options on 5,200,000 shares were granted (2003: 10,000,000), no options were exercised (2003: Nil) and 5,700,000 options lapsed (2003: 5,000,000). The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below:

Year of grant	Exercise price Pence	Exercise period	2004 Number	2003 Number
2001	14.75	2004–2011	4,000,000	4,200,000
2002	17.42	2005–2012	4,400,000	4,700,000
2003 (March)	12.25	2006–2013	5,400,000	5,600,000
2003 (November)	19.25	2006–2013	—	2,500,000
2004	13.25	2007–2014	2,700,000	—
			16,500,000	17,000,000

The options are exercisable at any time during the seven year period commencing three years from the date of the grant. Exercise of the 2001 and 2002 options is subject to the market value of the shares being not less than 35.0p for a period of five consecutive dealing days at any time in the period of six months prior to the date the option is first exercised. Exercise of the March 2003 options is subject to growth in earnings per share over a three year period from 2002 of 20%, 15% and 10% per annum. Exercise of the 2004 options is subject to growth in earnings per share over a three year period from 2003 of 20%, 15% and 10% per annum.

Notes to the Financial Statements

For the year ended 31 December 2004

23. Reserves

	Profit and loss account £m
Group	
At 1 January 2004	1.7
Loss for the year	(3.3)
At 31 December 2004	(1.6)
Company	
At 1 January 2004	(0.9)
Loss for the year	(6.0)
At 31 December 2004	(6.9)

24. Reconciliation of operating profit to operating cash flows

	2004 £m	2003 £m
Operating profit	6.3	9.5
Depreciation on tangible fixed assets	2.4	2.1
Amortisation of goodwill	9.2	9.1
Amortisation of intangible fixed assets	0.2	—
Decrease in stocks	—	0.1
Decrease in trade debtors	—	0.4
Decrease in other debtors	0.6	—
Increase in prepayments	(2.0)	(1.9)
Increase/(decrease) in trade creditors	0.1	(1.0)
Decrease in other taxes	(0.5)	(0.2)
(Decrease)/increase in accruals and deferred income	(2.0)	0.5
Net cash inflow from operating activities	14.3	18.6

25. Analysis and reconciliation of net debt

	At 1 January 2004 £m	Cash flow £m	Other movements £m	At 31 December 2004 £m
Cash at bank and in hand excluding charity cash balances	2.3	(2.0)	—	0.3
Bank overdrafts	(6.9)	6.6	—	(0.3)
	(4.6)	4.6	—	—
Debt due within one year	(15.9)	1.0	4.0	(10.9)
Debt due after one year	(94.0)	(3.0)	(4.0)	(101.0)
Hire purchase contracts	(0.2)	—	(0.7)	(0.9)
	(110.1)	(2.0)	(0.7)	(112.8)
	(114.7)	2.6	(0.7)	(112.8)
			2004 £m	2003 £m
Increase/(decrease) in cash in period			4.9	(3.1)
Movement in charity cash			(0.3)	(0.1)
Change in net debt resulting from cash flows			4.6	(3.2)
New hire purchase contracts			(0.7)	(0.2)
Cash inflow from increase in loans			(3.0)	(6.0)
Cash outflow from repayment in loans			1.0	16.0
Movement in net debt for the period			1.9	6.6
At 1 January 2004			(114.7)	(121.3)
At 31 December 2004			(112.8)	(114.7)

26. Capital commitments

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Contracts placed for future capital expenditure not provided for in the financial statements	—	1.0	—	—

Notes to the Financial Statements

For the year ended 31 December 2004

27. Operating lease commitments

Annual commitments under non-cancellable operating leases in respect of land and buildings are as follows:

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Expiring between one and two years	0.1	—	—	—
Expiring between two and five years	—	0.1	—	—
Expiring after more than five years	0.3	0.2	0.2	0.2
	0.4	0.3	0.2	0.2

28. Other financial commitments

In December 1996, an incentive scheme to reward Football Pools collectors was established by a subsidiary company. Under the terms of the scheme, the collectors earn points on the basis of their sales. These points can be converted into vouchers to purchase items from high street shops. On the basis of similar schemes, a redemption rate attributable to these points has been established and an appropriate charge made in these accounts. The liability in respect of the points not provided for in these financial statements amounts to £2.9m (2003: £2.6m).

29. Related party transactions

The extent of transactions with related parties of Sportech PLC as defined by FRS 8 "Related Party Disclosures", and the nature of the relationship with them are summarised below:

- (a) The Foundation for Sport and the Arts is a UK discretionary trust which was established in 1991 with the aim of encouraging and developing involvement in general sports activities and in the arts. The contributions are made by Littlewoods Promotions Limited and the trustees include Gary Speakman, a Director of both Sportech PLC and Littlewoods Promotions Limited.

Contributions of £0.3m were made in the year (2003: £1.3m). At 31 December 2004, £Nil (2003: £0.1m) was owed to The Foundation for Sport and the Arts.

- (b) The Bank of Scotland provided loan finance for the acquisition of Littlewoods Gaming, and is a significant shareholder, as set out in the Directors' Report.

The details of the balances on the loans as at 31 December 2004 and 31 December 2003 are set out in note 20. Interest on these loans amounting to £7.2m (2003: £6.4m) has been charged in these financial statements.

The Group has also entered into interest rate swap and cap transactions with the Bank of Scotland, as set out in note 21. £Nil (2003: £Nil) of interest was charged and £0.4m (2003: £0.1m) of interest was received under interest rate swap contracts.

- (c) The Group's head office, Sportech House, is owned by Northern Trust Company Limited. There is common control of Northern Trust Company Limited and Newby Manor Limited, which is a significant shareholder as set out in the Directors' Report.

£0.2m of rent has been charged in these financial statements (2003: £0.2m). The lease period is for ten years and the contract included an initial rent free period of six months, the equivalent cost of which is being held in Accruals and Deferred Income and amortised over the period to the earliest break point in the contract (five years), in accordance with UITF 28 "Operating lease incentives". At 31 December 2004, £0.1m (2003: £0.1m) was held in Accruals and Deferred Income.

30. Pension scheme

The Group participates in two pension schemes. One is a defined contribution stakeholder scheme, and the second is a defined benefit scheme, which is funded.

Summary of pension contributions paid

	2004 £m	2003 £m
Defined contribution scheme contributions	0.4	0.4
Defined benefit scheme contributions	0.2	0.2
Total pension contributions (see note 9)	0.6	0.6

Defined contribution scheme

Those employees who joined the Group consequent upon the acquisition of Littlewoods Gaming and who were aged under 50 on 4 September 2000, and all other employees of Sportech can join a stakeholder pension scheme established on 6 April 2001. The contributions to this scheme are made at a maximum rate of 8% of pensionable salaries.

Defined benefit scheme

Pursuant to the sale agreement between Littlewoods Limited and Sportech, a defined benefit scheme has been set up for those employees who joined the Group consequent upon the acquisition of Littlewoods Gaming and who were aged 50 or over on 4 September 2000, the date of the acquisition. This scheme was formed on 6 April 2001 and at 31 December 2004 has 56 members (2003: 58 members).

The Group has continued to account for pensions in accordance with SSAP 24 and the disclosures required by that standard are set out in (i) below. FRS 17 "Retirement benefits" was issued in November 2000 but the Group is not required to implement the new standard fully, however FRS 17 "Retirement benefits" requires certain disclosures to be made in these accounts. To the extent that they are different or additional to those required under SSAP 24 these are set out in (ii) on pages 41 to 43.

(i) SSAP 24

The most recent actuarial valuation was carried out at 31 December 2003 by the independent actuary. The principal assumptions and results of the valuation are set out below:

Discount rate and expected rate of investment return	6.0%
Rate of increase in pensionable salaries	4.5%
Rate of increase in pensions in payment and inflation	3.0%
Market (and actuarial) value of assets	£1.0m
Level of funding (actuarial value of assets as a percentage of accrued service liabilities)	140.0%

The next actuarial valuation is due to be carried out no later than 31 December 2006.

The contributions of the employees have been set at the rates set out in the rules of the fund of 6% of pensionable salary. The contributions of the relevant Group companies are 20.2% of pensionable salary.

The total charge for the year in the accounts of the Group was £0.2m (2003: £0.2m). There were no outstanding or prepaid contributions at either the beginning or end of the year.

(ii) FRS 17 "Retirement benefits"

The valuation used for FRS 17 "Retirement benefits" disclosures has been based on the membership of the scheme at 31 December 2003 with allowances for known retirements from the scheme during 2004. The principal assumptions used by the actuary for this purpose are set out below:

	2004	2003	2002
Rate of increase in pensionable salaries	4.3%	4.3%	4.0%
Rate of increase in pensions in payment	2.8%	2.8%	2.5%
Discount rate	5.3%	5.3%	5.4%
Inflation assumption	2.8%	2.8%	2.5%

Notes to the Financial Statements

For the year ended 31 December 2004

30. Pension scheme (continued)

Defined benefit scheme (continued)

(ii) FRS 17 "Retirement benefits" (continued)

The assets in the scheme and the expected rates of return (net of administrative expenses) were:

	Long-term rate of return expected 31 December 2004 %	Value at 31 December 2004 £m	Long-term rate of return expected 31 December 2003 %	Value at 31 December 2003 £m	Long-term rate of return expected 31 December 2002 %	Value at 31 December 2002 £m
Equities	7.0	1.0	7.1	0.7	7.3	0.3
Bonds	5.0	0.1	—	—	—	—
Cash	4.0	0.1	4.0	0.3	4.0	0.3
Total market value of assets		1.2		1.0		0.6
Present value of scheme liabilities		(1.0)		(0.8)		(0.5)
Surplus in the scheme		0.2		0.2		0.1
Related deferred tax liability		(0.1)		—		—
Net pension asset		0.1		0.2		0.1

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserves at 31 December 2004 and 31 December 2003 would be as follows:

	2004 £m	2003 £m
Net assets excluding pension asset	28.0	31.3
Pension asset	0.1	0.2
Net assets including pension asset	28.1	31.5
Profit and loss reserve excluding pension asset	(1.6)	1.7
Pension reserve	0.1	0.2
Profit and loss reserve	(1.5)	1.9

Analysis of the amount charged to operating profit

The following amounts would have been charged to the profit and loss account in the year to 31 December 2004 under the requirements of FRS 17 "Retirement benefits":

	2004 £m	2003 £m
Current service	0.2	0.2
Past service cost	—	—
Total operating charge	0.2	0.2

30. Pension scheme (continued)

Defined benefit scheme (continued)

(ii) FRS 17 "Retirement benefits" (continued)

Movement in surplus during the year

	2004 £m	2003 £m
Surplus in scheme at the beginning of the year	0.2	0.1
Movement:		
– current service cost	(0.2)	(0.2)
– contributions	0.2	0.2
– past service cost	—	—
– other finance income	—	—
– actuarial gain	—	0.1
Surplus in the scheme at the end of the year	0.2	0.2

Analysis of the amount credited to other finance income

The following amounts would have been credited to other finance income in the year to 31 December 2004 under the requirement of FRS 17 "Retirement benefits":

	2004 £m	2003 £m
Expected return on scheme assets	0.1	—
Interest on pension scheme liabilities	(0.1)	—
Net return	—	—

Analysis of the amount recognised in the statement of total recognised gains and losses

The following amounts would have been recognised in the statement of total recognised gains and losses in the year to 31 December 2004 under the requirement of FRS 17 "Retirement benefits":

	2004 £m	2003 £m
Actual return less expected return on pension scheme assets	—	0.2
Experience gains and losses arising on scheme liabilities	—	—
Changes in the assumptions underlying the present value of the scheme liabilities	—	—
Actuarial gain recognised in the statement of total recognised gains and losses	—	0.2

History of experience gains and losses

	2004	2003	2002
Difference between actual and expected return on scheme assets:			
Amount (£m)	—	0.2	—
Percentage of scheme assets	(0.2)%	17.5%	0.7%
Experience gains and losses on scheme liabilities			
Amount (£m)	—	—	0.1
Percentage of the present value of scheme liabilities	(3.6)%	5.4%	21.1%
Total amount recognised in statement of total recognised gains and losses:			
Amount (£m)	—	0.2	0.1
Percentage of the present value of scheme liabilities	(3.0)%	23.5%	19.4%

Company Directors and Advisers

Company Directors

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Non-executive Chairman

Roger Withers

Acting Managing Director

Gary Speakman

Finance Director and Company Secretary

Kathryn Revitt

Non-executive Director

Advisers

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Click: www.footballpools.com

www.gameon.com

View: ITVi

Sky Active Winzone

Visit: Local newsagents and convenience stores

Collector: UK network of collectors visit customers at home

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Collector: UK network of collectors visit customers at home

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mobile service

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