

Sportech PLC

Annual Report and Accounts 2005

Let's play...





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“We aim to transform the Group by placing sport, leisure and gaming at the heart of our business, with new products and multi-channel distribution to revitalise our existing business and market opportunities.

We are changing the focus, culture and therefore future potential of the Company and will build upon the foundations currently being developed.”

Ian R Penrose
Chief Executive
26 April 2006



Chairman's Statement

Piers Pottinger



- Immediate steps have been taken to focus the Group on its profitable business streams whilst eliminating the loss making elements.
- There is a new sense of enthusiasm for the business and a passion to create a focused and more profitable Group.

Introduction

I was delighted to be appointed as Chairman of your Company on 1 February 2006. This is an exciting time to be involved with Sportech as positive change is happening at a great speed. Working closely with Ian Penrose, the recently appointed Chief Executive, there is a new sense of enthusiasm for the business and a passion to create a focused and more profitable Group. There are challenges ahead, but I am confident we now have the team in place to meet them.

Transforming activities, strategy and culture

The business of Sportech today is undergoing a transformation. A new Chairman, Chief Executive and a wholly restructured Board is complemented by a newly appointed managerial team who will convene fully in July 2006. We have appointed new financial advisers and brokers to work with the Board.

Immediate steps have been taken to focus the Group on its profitable business streams whilst eliminating the loss making elements. To this end, the new management team has undertaken a strategic analysis of all divisions. As part of this process, in January 2006, Sportech terminated its contract to provide betting services to ITV. In addition, we have developed a pipeline of new products and distribution channels to maximise our strong UK gaming franchise.

Financials

Stakes placed for the year of £490.8m was 1% down on last year. Profit before tax and exceptional restructuring costs increased by 3% to £9.7m (2004: £9.4m). There is an exceptional charge of £16.1m (2004: £1.2m), £0.7m of which was the cash cost directly associated with the termination of our contract with ITV, a further £12.9m being the write off of amounts paid to ITV since 2003, assets not previously expensed and redundancy costs. The loss for the year before tax is therefore £6.4m (2004: profit of £8.2m). Net debt was reduced to £108.1m (2004: £112.8m). No dividend is proposed.

Board and employees

I should like to thank David Mathewson and Roger Withers for their contributions made to the Group as Chairman and Non-executive Director (and latterly acting Managing Director) respectively.

I should also like to express my thanks to the employees at Sportech who have remained steadfast in their commitment throughout this year of change. Our streamlined focus on the business activities being implemented will ensure that the hard work and loyalty of our workforce is duly rewarded.

Outlook

Sportech owns and operates some of the strongest brands in the UK gaming industry. A new energy and enthusiasm to succeed is permeating the business. It is early days, but sport, leisure and gaming are at the heart of our culture and offer exciting opportunities in rapidly evolving sectors. Sportech is in a strong position to capitalise on these. I look forward to the future with confidence.



Piers Pottinger
Chairman
26 April 2006

“Sport, leisure and gaming are at the heart of our culture and offer exciting opportunities in rapidly evolving sectors.”

Chief Executive's Review

Ian R Penrose



- The new strategy for the Company will take the strengths and qualities of our heritage and build upon these to re-establish Sportech's position in sport, leisure and gaming.
- The Board has been restructured to maximise the key skills we already possess and further strengthen our team.
- We will reinvigorate the Football Pools business, putting it at the heart of the Group.

Since becoming Chief Executive of Sportech in October 2005, we have embarked on a thorough review of the business in order to establish a clear direction and focus for the Group. We will lay firm foundations on which to build, thereby allowing the Group to take advantage of opportunities ahead.

Restructuring of the Board and Management Team

The Board has been restructured to maximise the key skills we already possess and further strengthen our team. On the Executive team, Gary Speakman has been promoted to Chief Operating Officer from Finance Director, reflecting his in-depth knowledge and direct experience of Sportech's operations. I am pleased to announce the appointment of Steve Cunliffe as Finance Director with effect from July 2006. A Chartered Accountant, Steve, aged 37, brings considerable experience across a range of leisure and manufacturing businesses.

Also at Board level, Piers Pottinger has been appointed as Non-executive Chairman. He possesses almost three decades of corporate experience and has close ties with the public relations, media and gaming industries. John Barnes has also joined as a Non-executive Director. John has extensive experience and knowledge of marketing and of the leisure industry, both in Europe and the US, and will be a valuable addition to Sportech.

Furthermore, at an operational level, I am also delighted to announce the appointment of Ted Taylor as Managing Director of Littlewoods Pools (with immediate effect) and Jon Sheehy as Marketing Director (with effect from July 2006). Ted, aged 45, brings significant commercial, technical and pool betting experience, both domestically and internationally, from his time at Arena Leisure Plc and Harry Ramsdens Plc, whilst Jon brings a wide range of strategic sales and marketing experience from his career with Shell, RAC Motoring Services, Lex Service and latterly Leisure Parcs.

We believe we now have a Board and Management Team who have the energy, drive and dedication to capitalise on the significant potential for growth within the Group.

A clear and focused strategy

The new strategy for the Company will take the strengths and qualities of our heritage and build upon these to re-establish Sportech's position in sport, leisure and gaming. As part of this, we will reinvigorate the Football Pools business, putting it at the heart of the Group. Sportech operates the world's largest football pools on the world's most popular sport – British football. There are over

550,000 customers playing every week for a jackpot of up to £2m. We have been in business for 83 years, created over 60m winners and paid out over £400m to football and good causes.

Starting this summer and in advance of the 2006 World Cup, we will focus on product diversification and multi-channel distribution. We will broaden our range of football games, thereby increasing their appeal to a wider customer base. We will also maximise the widespread distribution of our football products onto the Internet, mobile telephony and internationally through partnerships, agencies and direct sales. An example of this is our recent partnership with PayPoint, enabling Football Pools and Littlewoods Lotto customers another payment method at over 14,000 accessible high street retail outlets.

We are committed to building a suite of online gaming products to strengthen the current offering of casino, poker, bingo and fixed odds games.

We are working closely with our online technology partner for Littlewoods Casino and Poker, the Canadian company Cryptologic, and in early 2006 we upgraded LittlewoodsPoker.com. The focus on the Poker business has helped to drive average weekly rake (commission received) above £60,000 in March 2006, nearly three times the weekly rake compared to the same period last year. The combination of a very strong brand in this rapidly growing poker sector, together with further innovative promotion of online poker at offline tournaments, gives us confidence about the growth potential of this part of our business.

The LittlewoodsCasino.com site offers a wide variety of over 80 gaming products, including the new Marvel comic themed games. In line with the rest of the industry, Casino experienced a significant downturn in performance from April 2005.

We are now turning our attention to this area of our business to enhance the strategic and operational focus.

In February 2006, Sportech launched LittlewoodsBingo.com aiming to tap into the lucrative bingo market. The bespoke games are provided by St. Minver, a leading supplier of gaming solutions. Following a successful soft launch, the

marketing programme has now commenced which will cross sell bingo to the Company's existing 550,000 regular pools customers.

Following a review of the business, it became clear that Sportech's interactive gaming contract with ITV was commercially unviable. It had been loss making since inception, including an operating loss of £4.1m in 2005 and the continuation of this arrangement would expose Sportech to further losses of up to £30m, as a consequence of operating losses and minimum guarantee payments over the next three years, which we were unwilling to tolerate. Consequently we made the decision to terminate the contract.

The Bet Direct business had a disappointing year due to a lack of management focus and, in common with the bookmaking industry, adverse sports results. Bet Direct comprises sports betting across telephone, Internet, television and mobile and branded casino, poker and arcade games. Registered customers have increased by 22% to 459,000, while active customers have increased by 12% to 82,000. The continued operating losses arising from sports betting, which straddles both telephone and interactive gaming, means that Bet Direct has and will continue to receive an increased focus from the management team whilst the Board is strategically reviewing its options.

Outlook

We aim to transform the Group by placing sport, leisure and gaming at the heart of our business, with new products and multi-channel distribution to revitalise our existing business and market opportunities. We are changing the focus, culture and therefore future potential of the Company, and will build upon the foundations currently being developed.



Ian R Penrose
Chief Executive
26 April 2006

“Starting this summer and in advance of the 2006 World Cup, we will focus on product diversification and multi-channel distribution.”

Financial and Operating Review

Gary Speakman



- Profit before tax and exceptional restructuring costs, increased to £9.7m (2004: £9.4m).
- Operating cash flow increased to £5.7m (2004: £4.8m) with net debt reducing to £108.1m (2004: £112.8m).
- We have signed a distribution agreement with PayPoint providing customers a convenient opportunity to play football pools in 14,000 retail outlets.
- Gross win across our Casino and Poker products was up 14% to £10.0m.

These are the first set of annual accounts prepared under IFRS. The adoption of IFRS has had no cash impact on the Group, and the major differences to the previous accounting basis adopted relate to the non-amortisation of goodwill and the presentation and definition of revenue.

The accounting treatment for the presentation of betting and gaming transactions within revenue following the adoption of IFRS has been the subject of recent discussion within the gaming industry concerning whether gaming transactions fell within the scope of IAS 39. It has now been determined that betting and gaming transactions do come within the scope of IAS 39, and in consequence these transactions are now shown net within the revenue line of the income statement as stakes placed net of winnings returned to customers. The impact on the results for the 52 weeks to 6 January 2006 is to reduce both revenue and cost of sales by £415.6m (53 weeks to 7 January 2005: £410.7m). There is no impact on reported profits from the adoption of this treatment. The comparatives for the 53 weeks to 7 January 2005 have also been restated to reflect this change. A table of stakes placed (the previous definition of revenue adopted) by customers and the gross win retained and reported as revenue is as follows:

	Stakes placed		Gross win revenues	
	52 weeks ended 6 January 2006 £m	53 weeks ended 7 January 2005 £m	52 weeks ended 6 January 2006 £m	53 weeks ended 7 January 2005 £m
Football Pools	73.3	87.0	57.4	67.0
Interactive Betting	335.3	327.4	12.3	11.2
Telephone Betting	82.2	82.6	5.5	8.1
	490.8	497.0	75.2	86.3

Operating profit before exceptional restructuring costs amounted to £17.2m, with Football Pools contributing £24.4m (2004: £24.3m). Total betting contributed an operating loss of £7.2m (2004: £7.6m) due to the continued losses from the ITV contract and the Bet Direct Sports Betting business, offset in part by profits from online Casino and Poker. After deducting net interest of £7.5m (2004: £7.3m), profit before tax and exceptional restructuring costs, increased to £9.7m (2004: £9.4m). Restructuring

costs amounted to £16.1m (2004: £1.2m) mainly reflecting the impact of the decision to terminate the ITV contract. The cash cost of this termination was £0.7m.

The loss before tax was £6.4m compared to a profit before tax of £8.2m in the previous year, again reflecting the impact of the restructuring costs. The loss per ordinary share was 0.97p, compared to earnings per share of 0.96p in 2004. Adjusted (pre exceptional) earnings per share was 1.14p (2004: 1.11p). Operating cash flow increased to £5.7m (2004: £4.8m) with net debt reducing to £108.1m (2004: £112.8m).

Football Pools

We own the strongest Football Pools business in the world. This is a significant asset for the Group. British football has a worldwide franchise and we are determined to find new routes to market for this unique product. Football Pools remains a very popular game played by over half a million customers every week with around 70,000 winners each year.

Our priorities for Football Pools in 2006 are product diversification and multi-channel distribution. We are currently looking to broaden our suite of products by developing new games, particularly those which are suited to new media channels and will attract new customers from a younger audience. With regard to distribution, we look to build on ways that complement our existing network of 13,000 door-to-door collectors allowing our customers more choice and flexibility. We have already made progress in this area and as we announced on 21 March 2006, we have signed a distribution agreement with PayPoint providing existing and new customers a convenient opportunity to play the game in 14,000 retail outlets.

Total profits from Football Pools and related games, pre-restructuring costs, remained constant at £24.4m (2004: £24.3m).

Total Football Pools stakes placed from the Littlewoods and Zettors brands were £67.1m, 16% lower than reported last year (2004: £79.5m). Pools Direct, our subscription based channel, now accounts for 44% of UK stakes placed and in this channel customer retention was 91%, whereas in the collector channel customer retention was 81%.

Further improvements in gross margin, operating cost savings and lower marketing costs offset almost entirely the impact of the revenue decline, with the resultant profit from Football Pools totalling £23.1m (2004: £23.2m). Other games, including Spot the Ball, contributed stakes placed of £6.2m (2004: £7.5m) and profits of £1.3m (2004: £1.1m). This included operating losses, pre-restructuring, from scratchcards of £0.1m (2004: loss of £0.6m). We exited the scratchcard business as planned in 2005 and no further costs will be incurred.

Betting

Betting comprises our casino and poker activities, together with our Bet Direct Sports Betting business and the contract, now terminated, with ITV. Revenues are generated either via the telephone or interactively over the Internet or interactive television. Betting contributed an operating loss of £7.2m (2004: £7.6m) with our Casino and Poker business generating a profit of £1.7m (2004: £2.0m), our ITV contract losing £4.1m (2004: £5.5m) and Bet Direct Sports Betting losing £4.8m (2004: £4.1m). This is analysed below in further detail.

	Operating profit/(loss)			
	Interactive £m	Telephone £m	2005 £m	2004 £m
Television (ITV)	(4.1)	—	(4.1)	(5.5)
Bet Direct Sports Betting	(2.5)	(2.3)	(4.8)	(4.1)
Betting excluding Casino and Poker	(6.6)	(2.3)	(8.9)	(9.6)
Casino and Poker	1.7	—	1.7	2.0
Total Betting	(4.9)	(2.3)	(7.2)	(7.6)

Financial and Operating Review

Interactive Betting

The Group has made considerable progress in this market. Our Internet-based portfolio comprises a number of UK focused gaming sites offering casino, poker and entertainment games such as bingo and sportsbook. Customers are predominantly from the UK.

Gross win (defined as poker commission received and casino stakes less winnings), across our Casino and Poker products was up 14% to £10.0m (2004: £8.8m) driven by good growth in LittlewoodsPoker.com and the introduction of a branded Bet Direct Casino and Poker service. Other interactive products saw flat gross win of £2.3m (2004: £2.3m). We experienced an 80% increase in our Casino and Poker active customers.

Television

The contract with ITV was signed in March 2002 by Sportech to capitalise on the projected growth market of betting via interactive television. Sportech, through Littlewoods Gaming, agreed to supply interactive betting and gaming services linked to ITV programming. The contract had been loss making for Sportech since its inception and, with no prospect of a commercial return, the Board decided to terminate the contract with immediate effect in January 2006.

Our red button based, 24/7 content within the ITVi service continued to be loss making during 2005, with an operating loss of £4.1m (2004: £5.5m). Although the cost of delivering the gaming service with ITV reduced significantly, following the planned restructuring of the development team, gross win was averaging just £4,000 per week and was commercially unviable. Through Bet Direct, Sportech remains on the Sky platform and within At The Races, and these television based gaming services contributed a £1.0m gross win in 2005.

The decision to terminate the ITV contract will result in Sportech eliminating an expected operating loss in 2006 and avoiding further potential losses of up to £30m over the remaining three years of the contract. As a consequence of the termination, the 2005 results have been impacted by an additional exceptional charge of £13.6m, reflecting the write off of payments already made to ITV, related assets and redundancies. The cash cost of the termination amounted to £0.7m which is lower than previously anticipated. There are no further costs or payments to be made with regards to the ITV contract. Sportech and ITV will have no further engagement.

Telephone Betting

The adverse sporting results impacted most significantly on telephone gross win which reduced to £5.5m (2004: £8.1m). Telephone margins reduced to 7% compared to the very strong margins experienced in 2004 (2004: 10%).

With direct costs and overheads reduced significantly, particularly call handling following its insourcing in late 2004, the operating loss from Telephone Betting was 18% lower than last year at £2.3m (2004: loss of £2.8m). The restructuring costs associated with the insourcing was £0.6m (2004: £0.3m) and in line with expectations.



Gary Speakman
Chief Operating Officer and Finance Director
26 April 2006

“We own the strongest Football Pools business in the world.”

Financial and Operating Review

Sportech operates the world's largest football pools on the world's most popular sport – British football.



Sportech has a regular playing customer base of over

550,000

who play football pools every week





© Getty Images

ZETTERS

Over

60 million

prize winners



Financial and Operating Review

Football is the most popular sport on the planet





© Action Images

We aim to take our UK products to the global football and gaming market.



Financial and Operating Review

Our online casino and poker business is growing rapidly.





Corporate Social Responsibility



The Company's risk assessment process takes account of the significance of social and ethical matters to the businesses of the Group.

Responsible gaming and betting practices

Sportech's portfolio of products are regulated by the UK authorities, including the Gaming Board. All gaming products are subject to age restrictions. Age verification software was introduced during 2005.

The Company actively promotes GamCare, the national association for gambling care educational resources and training to its customers, and 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, Littlewoods Gaming continued to provide sole financial support to the Foundation for Sports and the Arts through its charity lottery products. The Foundation supports



amateur sports and arts projects throughout the UK, awarding grants up to £500,000. Gary Speakman, Chief Operating Officer and Finance Director of the Company, continues to serve on the Board of Trustees.

Sales of scratchcard and lotto products, managed on behalf of charities by Littlewoods Gaming, generated £1.7m for charities during the year.

Specific donations made in 2005 include £50,000 to the Responsibility in Gambling Trust and £25,000 to the Daily Mail Tsunami appeal.

Environment

The Company recognises its responsibility to achieve good environmental practice and to continue to strive for improvement in its environmental impact.

The nature of its business results in the principal impact arising from energy and paper consumption.

Wherever possible, waste consumable materials are recycled or disposed of in a manner most suitable to reduce any impact on the natural environment. The Company's business practices also encourage environmental good practice and, through the increasing use of technology to facilitate information and data collection and dissemination, have led to reduced demand for paper resources.

All employees are encouraged to participate in the implementation of this policy and suppliers of consumable products are encouraged to be environmentally friendly, wherever practical.

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 and Two Ticks employer.

Board of Directors and Advisers



Piers Pottinger*† 52

Non-executive Chairman

Piers Pottinger was appointed to the Board on 3 November 2005. Following three years at J Henry Schroder Wagg & Co Limited, Piers Pottinger spent three years as an analyst with stockbrokers Laurence Prust. In 1978, he joined Charles Barker. He spent two years as Director of Media Relations at Manufacturers Hanover Trust in New York before returning to London as Managing Director of Sterling Financial Public Relations in 1982. He joined Good Relations City (now Bell Pottinger Corporate and Financial) as Managing Director in 1985 and was also a Director of Good Relations Group plc. He is currently Executive Deputy Chairman of Chime Communications PLC, which he co-founded with Lord Bell. He is also a Non-executive Director of Newmarket Investments plc, Vice President of the National Society for Epilepsy and a Trustee of the Foundation for Liver Research.



Ian Penrose 40

Chief Executive

Ian Penrose was appointed Chief Executive on 1 October 2005. Ian was previously Chief Executive of Arena Leisure Plc where he led the company since May 2001, having joined as Group Finance Director in 1998. Ian, a chartered accountant, has extensive commercial experience of the sporting, leisure, gaming and media industries.

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

Registered office

Sportech PLC

249 West George Street, Glasgow
Scotland G2 4RB

Company registration number

SC69140

Company Secretary

Gary Speakman

Head office

Sportech PLC

Sportech House, Enterprise Way
Wavertree Technology Park
Liverpool L13 1FB



Gary Speakman§ 44

Chief Operating Officer, Finance Director and Company Secretary
Gary Speakman was appointed Chief Operating Officer on 13 January 2006. For the previous eight years he has been Finance Director of Sportech/Littlewoods Gaming. He had previously held a variety of positions with The Littlewoods Organisation, Gallaher Limited, Leyland DAF, Rover Group and Dowty Group. Gary is a qualified chartered management accountant.



Kathryn Revitt*† 41

Non-executive Director

Kathryn Revitt was appointed to the Board on 4 September 2000. She is a Director of a number of companies in the leisure sector including Leisure Parks Limited, the owner of Blackpool Tower and The Winter Gardens and Trust Inns Limited. Kathryn is a qualified solicitor.



John Barnes*†‡ 56

Non-executive Director

John Barnes was appointed to the Board on 11 November 2005. For 17 years he has worked in senior marketing and general management positions with large international corporations such as Procter and Gamble and PepsiCo, in the UK, USA and France. He is currently Chairman of La Tasca Restaurant Group PLC and Zoo Digital PLC and a Non-executive Director of Caffè Nero PLC, Hardys and Hansons PLC and Interior Services Group PLC. He has just retired from the Board of Arena Leisure Plc, where he was a Non-executive Director for eight years.

Financial advisers

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London EC2V 7QP

Noble Grossart Limited

48 Queen Street, Edinburgh
Scotland EH2 3NR

Joint stockbrokers

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London EC2V 7QP

Arbuthnot Securities

Arbuthnot House
20 Ropemaker Street
London EC2Y 9AR

Principal bankers

Bank of Scotland

New Uberior House
11 Earl Grey Street, Edinburgh
Scotland EH3 9BN

Solicitors

Kirkpatrick & Lockhart

Nicholson Graham LLP

110 Cannon Street
London EC4N 6AR

Registered auditors

PricewaterhouseCoopers LLP

8 Princes Parade, St Nicholas Place
Liverpool L3 1QJ

Registrars

Capita Registrars

The Registry, 34 Beckenham Road
Beckenham
Kent BR3 4TU

Directors' Report

For the 52 weeks ended 6 January 2006

The Directors present their report and the audited financial statements for the 52 weeks ended 6 January 2006.

Principal activities

The principal activities of the Group remain Gaming comprising three segments: Football Pools, Interactive Betting and Telephone Betting, all 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 Chief Executive's Review and the Financial and Operating Review.

Results

The loss for the 52 weeks ended 6 January 2006 after taxation amounted to £5.8m (2005: £5.6m profit). A review of the results for the year is included in the Chairman's Statement, the Chief Executive's Review and the Financial and Operating Review. There is no dividend for the year.

Donations

Through its lottery operations, more than £1.7m was generated for good causes and charities in the year. Specific charitable donations totalling over £75,000 were made to a small number of charitable causes. Details of these donations may be found on page 17. 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 at 6 January 2006 had the following beneficial interests in the share capital of the Company:

	Personal holding	
	6 January 2006	8 January 2005*
Ian Penrose (appointed 1 October 2005)	3,000,000	2,500,000
Gary Speakman	1,200,000	950,000
Piers Pottinger (appointed 3 November 2005)	—	—
John Barnes (appointed 11 November 2005)	850,000	—
Kathryn Revitt	—	—
David Mathewson	3,500,000	3,500,000

* or date of appointment if later.

There have been no changes in these interests in the period between 6 January 2006 and 25 April 2006.

Details of options granted or exercised for the 52 weeks ended 6 January 2005 are set out in the Remuneration Report on page 24.

Substantial shareholdings

On 1 April 2006, 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
Newby Manor Limited	169,232,663	28.6
Bank of Scotland	168,282,663	28.4
Total of substantial shareholdings	337,515,326	57.0

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 6 January 2006 were 23 days (7 January 2005: 39 days). For the Company, creditor payment days outstanding at 6 January 2006 were 10 days (7 January 2005: 8 days).

Annual General Meeting

The Notice convening the Annual General Meeting (AGM) of the Company on 31 May 2006 is being sent to shareholders with this report.

In accordance with the Articles of Association of the Company, Kathryn Revitt retires by rotation and offers herself for re-appointment at the AGM. Ian Penrose, Piers Pottinger and John Barnes who were appointed to the Board on 1 October 2005, 3 November 2005 and 11 November 2005 respectively, are seeking re-appointment. The Company's Articles provide that any new Director appointed by the Board may hold office only until the next AGM when that Director must stand for re-election by the shareholders. Profiles of these Directors appear on page 18 and 19.

Pursuant to section 80 of the Companies Act 1985, it is proposed in Resolution 8 (item 8 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 25 April 2006. The Directors have no present intention of exercising the authority, except for granting options under the Sportech Share Option Scheme (the Scheme).

Pursuant to section 95 of the Companies Act 1985 it is proposed in Resolution 9 (item 9 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 Meeting and will expire on the earlier of the next AGM and 15 months after the passing of the 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
26 April 2006

Remuneration Report

For the 52 weeks ended 6 January 2006

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 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 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 Chief Executive (on remuneration other than his own) and is entitled to seek professional advice from outside the Group.

David Mathewson chaired the Committee throughout the financial year. Following David Mathewson's resignation from the Board on 31 January 2006, John Barnes has accepted the position as Chairman of the Committee. The Chief Executive is invited to attend meetings when appropriate, although he is not present when matters affecting his own remuneration are discussed.

With the exception of Piers Pottinger and John Barnes, both of whom have been granted options over shares in the Company, 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 2006, 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 70% 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 total number of ordinary shares over which options will be granted under the scheme will not exceed 3% of the Company's issued ordinary share capital from time to time, or such higher percentage (not exceeding 10%) as may be approved by the shareholders at a future date.

Share option grant to Non-executive Directors

In November 2005, Piers Pottinger and John Barnes were appointed as Non-executive Directors of the Company. The Board considered that the opportunity to recruit and retain Piers Pottinger and John Barnes as Non-executive Directors provided an exceptional opportunity for the Company to recruit individuals of an appropriate calibre. The Non-executive Directors were appointed on terms that they would not receive any cash remuneration but that they would instead receive options to acquire shares in the Company. Share options were therefore granted on 15 December 2005 to Piers Pottinger and John Barnes under bespoke share option arrangements for each individual, broadly on the same terms and conditions as options granted to Executive Directors under the Company's existing share option scheme. In granting the share options to Piers Pottinger and John Barnes, the Company has not complied with paragraph B.1.3 of the Combined Code. However, the Board considers that the grants of share options were necessary in order to recruit these highly experienced independent Non-executive Directors and that the holding of share options will not interfere with their Director's duties.

Share option grant to Non-executive Directors continued

The terms of the share option grants to Piers Pottinger and John Barnes respectively were identical, with each being granted an option to acquire 1,000,000 shares in the Company at the market value of the Company's shares at the date of grant (15 December 2005). In each case, the option can be exercised between 15 December 2008 and 14 December 2015, subject to satisfaction of performance conditions equivalent to those imposed on the grant of options to Executive Directors under the Company share option scheme. If there is any capitalisation, rights issue, rights offer or any consolidation, sub-division or reduction or other variation of share capital of the Company, the Board may adjust the number and nominal amount of shares subject to each option and the exercise price as the Board considers appropriate.

Neither option may be altered to the advantage of Piers Pottinger or John Barnes without the prior approval of the shareholders of the Company in general meeting, except for any amendment to benefit the administration of the option or to take account of any change in legislation, or to obtain or maintain favourable tax, exchange control or regulatory treatment for the Company or any member of its group or Piers Pottinger and John Barnes.

The agreements granting the share options will be available for inspection at the general meeting for at least 15 minutes before and during the meeting.

Policy on contracts of service

All Directors have contracts with notice periods of no more than 12 months. Unless terminated beforehand, contracts run until the Director reaches the age of 65.

	Contract date	Unexpired term	Notice period	Special contractual termination provisions
Ian Penrose	1 October 2005	N/A	1 year	None
Gary Speakman	30 January 2002	N/A	1 year	None
Piers Pottinger	3 November 2005	N/A	3 months	None
John Barnes	11 November 2005	N/A	3 months	None
David Mathewson ¹	30 January 2002	N/A	3 months	None
Roger Withers ²	30 January 2002	N/A	3 months	None

Notes:

1. David Mathewson resigned from the Board on 31 January 2006.
2. Roger Withers resigned from the Board on 31 October 2005.

Kathryn Revitt does not have a service contract but serves the Company under a letter of appointment. This appointment may be terminated without liability for compensation.

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 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 2000 has reduced 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 52 weeks ended 6 January 2006

Audited information

The remainder of the Remuneration Report is audited information.

Directors' remuneration

Details of each Director's remuneration for the 52 weeks ended 6 January 2006 are given below:

	Year of appointment	Fees/salary £000	Taxable Benefits ⁵ £000	Bonuses £000	52 weeks ended 6 January 2006 Total £000	53 weeks ended 7 January 2005 Total £000
Executive Directors						
Ian Penrose ¹	2005	55	4	27	86	—
Gary Speakman	2000	173	10	20	203	202
Roger Withers ²	2000	110	—	—	110	25
Non-executive Directors						
Piers Pottinger ⁴	2005	—	—	—	—	—
John Barnes ⁴	2005	—	—	—	—	—
Kathryn Revitt ³	2000	—	—	—	—	—
David Mathewson	1992	75	—	—	75	75
Aggregate emoluments		413	14	47	474	302
Fees paid to third parties ³					25	25

Notes:

1. Ian Penrose was appointed Chief Executive from 1 October 2005.
2. Roger Withers was a Director until 31 October 2005.
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 the 52 weeks to 6 January 2006 (53 weeks to 7 January 2005: £25,000).
4. Piers Pottinger and John Barnes have forgone remuneration for their roles as Non-executive Directors but have been granted options over shares in the Company.
5. Taxable benefits comprise various insurance policies and car allowances.

Two directors (53 weeks to 7 January 2005: two directors) are members of defined contribution schemes. Contributions paid by the Company in respect of these Directors were as follows:

	52 weeks ended 6 January 2006 £000	53 weeks ended 7 January 2005 £000
Ian Penrose	4	—
Gary Speakman	14	13
	18	13

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:

	8 January 2005	Granted	Exercised	Lapsed	6 January 2006
Piers Pottinger	—	1,000,000	—	—	1,000,000
Ian Penrose	—	5,000,000	—	—	5,000,000
Gary Speakman	4,500,000	—	—	—	4,500,000
John Barnes	—	1,000,000	—	—	1,000,000
	4,500,000	7,000,000	—	—	11,500,000

Audited information continued**Directors' share options continued**

Details of the options are as follows:

Granted on	Exercise price	Date from which exercisable	Expiry date	Ian Penrose	Gary Speakman	Piers Pottinger	John Barnes
10.04.01	14.75p	10.04.04	09.04.11	—	1,200,000	—	—
08.03.02	17.42p	08.03.05	07.03.12	—	1,200,000	—	—
25.03.03	12.25p	25.03.06	24.03.13	—	1,200,000	—	—
27.04.04	13.25p	27.04.07	26.04.14	—	900,000	—	—
27.09.05	8.25p	27.09.08	26.09.15	5,000,000	—	—	—
15.12.05	12.00p	15.12.08	14.12.15	—	—	1,000,000	1,000,000
				5,000,000	4,500,000	1,000,000	1,000,000

Exercise of the April 2001 and March 2002 options is subject to the market value of the shares being not less than 35p 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 April 2004 options is subject to growth in earnings per share over a three year period from 2003 of 20%, 15% and 10% per annum.

Exercise of the September 2005 options is subject to the share price reaching the following closing prices:

Shares	Closing price
1,500,000	12.50p
1,500,000	17.50p
1,000,000	22.50p
1,000,000	27.50p
5,000,000	

Exercise of the December 2005 options is subject to the share price reaching the following closing prices:

Shares	Closing price
1,000,000	17.50p
500,000	22.50p
500,000	27.50p
2,000,000	

The market price of the ordinary shares at 6 January 2006 was 12.0p and the range during the year was 7.88p to 13.0p.

The options were granted at nil cost to the Directors. The performance criteria for all of the above share options were consistent with the remuneration policy. Once awarded the exercise of the share options is unconditional.



John Barnes
Chairman of the Remuneration Committee
26 April 2006

Corporate Governance

Corporate governance compliance statement

The Company has complied throughout the financial year with the provisions set out in section 1 of the Combined 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" issued by the Financial Reporting Council (the Combined Code), 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 composition of the Board has changed significantly following the appointment of Ian Penrose as Chief Executive on 1 October 2005 from which date the Acting Managing Director, Roger Withers, reverted to his previous role as a Non-executive Director prior to retiring on 31 October 2005. Piers Pottinger was appointed to the Board as Non-executive Deputy Chairman on 3 November 2005, and on 11 November 2005, John Barnes was appointed as a Non-executive Director.

Gary Speakman was appointed to the newly created Executive Board position of Chief Operating Officer with effect from 13 January 2006. He will continue to retain his responsibility as Finance Director until his successor is in place.

On 31 January 2006 David Mathewson resigned as Non-executive Chairman and Piers Pottinger was appointed to that position with effect from 1 February 2006.

Piers Pottinger and John Barnes have been awarded share options in lieu of salaries as Non-executive Directors. The Board, having consulted with principal shareholders, considers this aligns the interests of the Board with that of the shareholders. However, the Board is aware that this is not in accordance with the Combined 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 pages 18 and 19 demonstrate the breadth of experience of the Board. The role of Company Secretary was assumed by the Finance Director during the course of the year. Independent professional advice may be taken by the Directors as required. John Barnes assumed the role of Senior Non-executive Director on joining the Board in November 2005.

The division of responsibility between the Chairman and the Chief Executive is clearly defined and has been agreed by the Board. The Chairman is primarily responsible for the workings of the Board. The Chief Executive is responsible for running the Group's business, for implementing Board strategy and policy and for shareholder communication. 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 is responsible for setting the Company's strategic objectives and managing the Company's activities. The Board met on 19 occasions during the review period. The Board currently comprises the Non-executive Chairman, the Chief Executive, the Chief Operating Officer and Finance Director and two other Non-executive 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.

Board of Directors and Committee structure continued

The Audit Committee of the Board comprises the Non-executive Directors and is chaired by John Barnes 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 Chief Operating Officer and 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. 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.

The Remuneration Committee of the Board also comprises the three Non-executive Directors and is chaired by John Barnes. 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 22 to 25.

The Board has determined that it is appropriate for matters that would normally be delegated to a Nomination Committee to be referred to the full Board. The Board, acting as a Nomination Committee, meets as appropriate 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 new Non-executive Directors were appointed by the then Chairman, David Mathewson, and the Chief Executive.

A Management Committee that is chaired by the Chief Executive oversees the detailed operations of the business.

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

Board and committee members

	Board	Audit Committee	Remuneration Committee
Number of meetings held in year	19	4	3
Executive Directors			
Ian Penrose ¹ (from 1 October 2005)	3	N/A	N/A
Gary Speakman ²	19	N/A	N/A
Roger Withers ³ (to 30 September 2005)	15	N/A	N/A
Non-executive Directors			
Piers Pottinger (from 3 November 2005)	1	1	N/A
John Barnes (from 11 November 2005)	2	1	N/A
Kathryn Revitt	16	4	3
David Mathewson	18	4	3

Notes:

1. Ian Penrose attended one Audit Committee meeting at the invitation of the Committee.
2. Gary Speakman attended all the Remuneration Committee and Audit Committee meetings during the year at the invitation of the Committees.
3. Roger Withers attended all the Remuneration Committee meetings and two Audit Committee meetings at the invitation of the Committees.

Corporate Governance

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. It is intended to adopt such processes in the current year.

Investor relations

There is a regular dialogue with shareholders through a planned programme of investor relations which includes formal presentations of the Company's results by the Chief Executive 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 web site (www.sportechplc.com).

All shareholders have the opportunity to question the Board at the AGM 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 includes 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.

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 52 weeks ended 6 January 2006 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;
- state that the financial statements comply with IFRS; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business.

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
26 April 2006

Independent Auditors' Report to the Shareholders of Sportech PLC

We have audited the Group and Company financial statements (the financial statements) of Sportech PLC for the 52 weeks ended 6 January 2006 which comprise the Consolidated Profit and Loss Account, the Group and Company Statements of Recognised Income and Expense, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. 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 other transactions is not disclosed.

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.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 6 January 2006 and of its loss and cash flows for the 52 weeks then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 6 January 2006 and cash flows for the 52 weeks then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Liverpool
26 April 2006

Consolidated Profit and Loss Account

For the 52 weeks ended 6 January 2006

	Note	Group	
		52 weeks ended 6 January 2006 £m	53 weeks ended 7 January 2005 (restated) £m
Continuing operations			
Stakes placed*		490.8	497.0
Gross win revenue	1	75.2	86.3
Cost of sales		(24.2)	(29.2)
Gross profit		51.0	57.1
Other income		0.4	—
Distribution costs		(0.1)	(0.1)
Administrative expenses		(50.2)	(41.5)
Operating profit before restructuring costs		17.2	16.7
Exceptional restructuring costs – ITV exit costs	2	(13.6)	—
Exceptional restructuring costs – Other	2	(2.5)	(1.2)
Operating profit	1	1.1	15.5
Interest payable and similar items	3	(7.5)	(7.4)
Interest receivable	3	—	0.1
(Loss)/profit before taxation	4	(6.4)	8.2
Taxation	7	0.6	(2.6)
(Loss)/profit for the financial year from continuing operations attributable to equity shareholders	8,22	(5.8)	5.6
(Loss)/earnings per share			
Basic and diluted	9	(0.97)p	0.96p
(Loss)/earnings per share from continuing operations			
Basic and diluted	9	(0.97)p	0.96p

* Stakes placed does not represent a statutory number and is given for information purposes only.

Statements of Recognised Income and Expense

For the 52 weeks ended 6 January 2006

	Note	Group		Company	
		52 Weeks ended 6 January 2006 £m	53 Weeks ended 7 January 2005 (restated) £m	52 Weeks ended 6 January 2006 £m	53 Weeks ended 7 January 2005 (restated) £m
(Loss)/profit for the financial year		(5.8)	5.6	(14.8)	(6.2)
Actuarial gain on defined benefit scheme	28	0.1	—	—	—
Total recognised (expense)/income for the year		(5.7)	5.6	(14.8)	(6.2)

Balance Sheets

As at 6 January 2006

	Note	Group		Company	
		6 January 2006 £m	7 January 2005 (restated) £m	6 January 2006 £m	7 January 2005 (restated) £m
ASSETS					
Non-current assets					
Goodwill	10	145.2	145.2	—	—
Other intangible assets	11	1.0	2.8	—	1.3
Property, plant and equipment	12	4.8	7.5	0.4	0.5
Investments in subsidiaries	13	—	—	167.1	167.1
Prepayments		—	5.9	—	5.9
Retirement benefit assets	28	0.3	0.2	—	—
Deferred tax assets	15	1.3	0.3	—	—
		152.6	161.9	167.5	174.8
Current assets					
Trade and other receivables	14	2.9	4.4	2.2	1.1
Financial assets – derivative financial instruments	20	—	0.2	—	0.2
Cash and cash equivalents	16	1.6	2.4	—	—
		4.5	7.0	2.2	1.3
LIABILITIES					
Current liabilities					
Financial liabilities – borrowings	19	(22.8)	(11.5)	(42.1)	(11.9)
Trade and other payables	17	(17.3)	(17.4)	(34.8)	(40.6)
Current tax liabilities	18	—	(1.3)	—	—
		(40.1)	(30.2)	(76.9)	(52.5)
Net current liabilities		(35.6)	(23.2)	(74.7)	(51.2)
Non-current liabilities					
Financial liabilities – borrowings	19	(85.3)	(101.6)	(85.0)	(101.0)
Deferred tax liabilities	15	(0.3)	—	—	—
		(85.6)	(101.6)	(85.0)	(101.0)
NET ASSETS		31.4	37.1	7.8	22.6
SHAREHOLDERS' EQUITY					
Ordinary shares	21	29.6	29.6	29.6	29.6
Other reserves	22	0.2	0.1	—	—
Retained earnings	22	1.6	7.4	(21.8)	(7.0)
TOTAL SHAREHOLDERS' EQUITY		31.4	37.1	7.8	22.6

The financial statements on pages 32 to 66 were approved by the Board of Directors on 26 April 2006 and were signed on its behalf by



Gary Speakman
Director
26 April 2006

Cash Flow Statements

For the 52 weeks ended 6 January 2006

	Note	Group		Company	
		52 weeks ended 6 January 2006 £m	53 weeks ended 7 January 2005 (restated) £m	52 weeks ended 6 January 2006 £m	53 weeks ended 7 January 2005 (restated) £m
Cash flows from operating activities					
Cash generated from operations	23	14.9	14.3	(6.9)	7.2
Interest received		0.2	0.5	0.2	0.4
Interest paid		(7.5)	(7.3)	(7.4)	(7.3)
Tax received/(paid)		(1.9)	(2.7)	—	2.6
Net cash from operating activities		5.7	4.8	(14.1)	2.9
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		0.4	0.3	—	—
Purchase of intangible fixed assets		(0.7)	(0.3)	—	(0.3)
Purchase of property, plant and equipment		(1.1)	(1.9)	—	—
Net cash (used in)/generated by investing activities		(1.4)	(1.9)	—	(0.3)
Cash flows from financing activities					
Net proceeds from issue of new bank loan		—	3.0	—	3.0
Finance lease principal payments		(0.3)	—	—	—
Repayment of borrowings		(9.0)	(1.0)	(9.0)	(1.0)
Net cash (used in)/generated by financing activities		(9.3)	2.0	(9.0)	2.0
Net (decrease)/increase in cash and cash equivalents		(5.0)	4.9	(23.1)	4.6
Cash and cash equivalents at 8 January 2005		2.1	(2.8)	(1.0)	(5.6)
Cash and cash equivalents at 6 January 2006		(2.9)	2.1	(24.1)	(1.0)
Cash and cash equivalents consists of:					
Cash and cash equivalents		1.6	2.4	—	—
Overdrafts		(4.5)	(0.3)	(24.1)	(1.0)
		(2.9)	2.1	(24.1)	(1.0)
Reconciliation of net debt					
(Decrease)/increase in cash in period		(5.0)	4.9		
Movement in charity cash	16	0.5	(0.3)		
Change in net debt resulting from cash flows		(4.5)	4.6		
Cash inflow from increase in loans		—	(3.0)		
Cash outflow from repayment in loans		9.0	1.0		
New finance lease agreements		—	(0.7)		
Cash outflow from repayment of finance lease agreements		0.3	—		
Other non-cash changes		(0.1)	—		
Movement in net debt for the period		4.7	1.9		
At 8 January 2005		(112.8)	(114.7)		
At 6 January 2006		(108.1)	(112.8)		
Net debt comprises					
Cash and cash equivalents including charity cash		(2.9)	2.1		
Less charity cash balances	16	(1.6)	(2.1)		
Available cash and cash equivalents		(4.5)	—		
Leases		(0.6)	(0.9)		
Loans repayable within one year		(18.0)	(10.9)		
Loans repayable after one year		(85.0)	(101.0)		
At 6 January 2006		(108.1)	(112.8)		

Accounting Policies

For the 52 weeks ended 6 January 2006

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation Committee (IFRIC) interpretations as adopted for use in the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities held for trading.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

A summary of the more important Group accounting policies is set out below. These policies have been applied consistently to all the years presented.

(a) First time adoption of IFRS

These are the first annual financial statements prepared on the basis of IFRS. The exemptions available to the Company under IFRS 1, and which it has taken advantage of are detailed in note 29.

(b) Basis of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries, all of which have consistent reporting dates with the Company, drawn up for the 52 week period from 8 January 2005 to 6 January 2006 (2005: 53 week period).

(c) Revenue

Revenue represents:

- the value of entry fees net of winnings paid receivable in respect of Football Pools recognised on the date of the event;
- the value of bets net of winnings paid received in relation to fixed odds betting and casino gaming activities recognised on the date of the event;
- poker revenues represent the commission (rake) charged or tournament entry fees where the player has concluded his participation in the tournament, both recognised 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.

Although the value of entry fees net of winnings paid and the value of bets net of winnings paid is reported as revenue, both meet the definition of a gain under IAS 39.

(d) Accruals and deferred income

Accruals and deferred income includes the value of stakes placed prior to the end of the financial period in respect of competitions and sporting events held subsequent to the end of the financial period.

(e) Segmental reporting

The Group has identified business segments as its primary reporting segments. A business segment is defined as a group of assets and operations engaged in providing products that are subject to risks and returns different from those of other business segments.

The Group has identified geographical segments as its secondary reporting segment.

Segment revenues and expenses result from the operating activity of the segment and the relevant portion of expenses that can be allocated on a reasonable basis to the segment.

Segment assets and liabilities are the result of segment operating activities and are either directly attributable to a segment or can be allocated to the segment on a reasonable basis.

(f) Deferred taxation

Deferred tax is provided in full, using the liability method on timing differences arising between the tax bases of assets and liabilities, and their carrying amounts in the financial statements. Deferred tax is measured at the rates applying at the balance sheet date.

Accounting Policies

For the 52 weeks ended 6 January 2006

Basis of accounting continued

(g) 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.

(h) Property, plant and equipment

Tangible fixed assets are carried at historical cost less accumulated depreciation and any impairment. Borrowing costs are not capitalised.

(i) Depreciation

Depreciation is provided on a straight-line basis to write off the cost of fixed assets down to residual value 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%

(j) 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 arising on acquisitions before the date of transition to IFRS (4 January 2004) has been frozen at the previous UK GAAP net book value at date of transition subject to being tested for impairment at that date, and annually.

(k) Other intangible fixed assets

Other intangible fixed assets comprise computer software and externally generated costs incurred in respect of developing interactive television gaming products. These costs are amortised through the profit and loss account on a straight line basis over their estimated useful lives (five years) once trading has commenced. On adoption of IFRS, computer software that under UK GAAP was classified as tangible fixed assets has now been reclassified as intangible fixed assets.

(l) Investments in subsidiaries

Investments in subsidiaries are carried at historic cost less any impairment.

(m) 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. Subsequent to the termination of a major broadcasting contract during the financial period, advance commissions have now been expensed (see note 2).

Basis of accounting continued**(n) Development costs**

Pre-design costs are charged to the profit and loss account as incurred.

An internally generated intangible asset arising from the Group's development of computer systems is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

These costs are being amortised on a straight-line basis over their anticipated useful lives (four years). Where no internally generated asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

(o) Impairment of fixed assets and goodwill

Goodwill is subject to an annual review for impairment in accordance with IAS 36 "Impairment of Assets". Any impairment losses are recognised in the profit and loss account in the year in which they occur.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

(p) 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.

(q) Pension contributions

The Group operates two pension scheme arrangements for its employees and accounts for pensions under IAS 19 "Employee Benefits". 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, actuarial valuations are carried out at each annual balance sheet date and actuarial gains and losses are recognised in full in reserves in the period in which they occur.

(r) Financial instruments

The Group uses derivative financial instruments to reduce exposure to interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes. Financial assets and liabilities are recognised on the Group's balance sheet initially at fair value when the Group becomes party to the contractual provisions of the instrument. Subsequent measurement depends on the designation of the instrument in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

(s) Share-based payments

The Group has elected to apply IFRS 2 "Share-based Payment" to all relevant share-based payment transactions granted after 7 November 2002 but not fully vested at 8 January 2005. The fair value of employee option plans is calculated using the Black-Scholes model. In accordance with IFRS 2, the resulting cost is charged to the income statement over the vesting period of the options. The value of the charge is adjusted to reflect expected and actual levels of option vesting.

(t) Cash and cash equivalents

Cash and cash equivalents represents cash held on current accounts with UK banks, including overdrafts.

(u) Exceptional items

The Group defines exceptional items as those items which by their nature or size would distort the comparability of the Group's results from year to year.

Notes to the Financial Statements

For the 52 weeks ended 6 January 2006

1. Segmental reporting

Primary reporting format

	52 weeks ended 6 January 2006			
	Football Pools £m	Interactive Betting £m	Telephone Betting £m	Group £m
Continuing operations				
Revenue	57.4	12.3	5.5	75.2
Segment result before restructuring costs	24.4	(4.9)	(2.3)	17.2
Exceptional restructuring costs – ITV exit costs	—	(13.6)	—	(13.6)
Exceptional restructuring costs – other	(0.5)	(1.2)	(0.8)	(2.5)
Segment result	23.9	(19.7)	(3.1)	1.1
Interest expense				(7.5)
Interest income				—
(Loss) before tax				(6.4)
Income taxes				0.6
(Loss) for the year from continuing operations				(5.8)
Net (loss) attributable to equity shareholders				(5.8)
Segment assets	147.2	6.8	3.1	157.1
Segment liabilities	(90.7)	(2.8)	(32.2)	(125.7)
Other segment items				
Capital expenditure	0.4	0.9	0.4	1.7
Depreciation	1.1	0.2	0.9	2.2
Amortisation of intangible assets	0.1	1.1	0.2	1.4
Impairment losses	—	2.6	—	2.6
	53 weeks ended 7 January 2005			
	Football Pools £m	Interactive Betting £m	Telephone Betting £m	Group £m
Continuing operations				
Revenue	67.0	11.2	8.1	86.3
Segment result before restructuring costs	24.3	(4.8)	(2.8)	16.7
Exceptional restructuring costs – other	(0.6)	(0.3)	(0.3)	(1.2)
Segment result	23.7	(5.1)	(3.1)	15.5
Interest expense				(7.4)
Interest income				0.1
Profit before tax				8.2
Income taxes				(2.6)
Profit for the year from continuing operations				5.6
Net profit attributable to equity shareholders				5.6
Segment assets	152.7	12.2	4.0	168.9
Segment liabilities	(102.6)	(2.0)	(27.2)	(131.8)
Other segment items				
Capital expenditure	0.3	1.2	1.4	2.9
Depreciation	0.9	0.1	0.5	1.5
Amortisation of intangible assets	0.2	0.7	0.2	1.1

1. Segmental reporting continued

Secondary reporting format

	Revenue		Segment assets		Capital expenditure	
	52 weeks ended 6 January 2006 £m	53 weeks ended 7 January 2005 £m	52 weeks ended 6 January 2006 £m	53 weeks ended 7 January 2005 £m	52 weeks ended 6 January 2006 £m	53 weeks ended 7 January 2005 £m
Continuing operations						
UK	65.2	77.5	152.1	166.2	1.4	2.9
Netherlands Antilles	10.0	8.8	5.0	2.7	0.3	—

2. Restructuring costs

	52 weeks ended 6 January 2006 £m	53 weeks ended 7 January 2005 £m
Exceptional restructuring costs – Interactive Betting – ITV exit costs	13.6	—
Other restructuring costs:		
Football Pools	0.5	0.6
Interactive Betting	1.2	0.3
Telephone Betting	0.8	0.3
	2.5	1.2
	16.1	1.2
ITV exit costs		
The write off comprises:		
Write off of advance commissions	10.1	—
Impairment of plant and equipment	1.6	—
Impairment of intangible assets	1.0	—
Other costs	0.9	—
	13.6	—

The contract with ITV was terminated on 3 January 2006.

The exit costs comprise the write off of advance payments made since the inception of the contract with ITV that were to have been recovered against future commissions to be earned by ITV over the life of the contract. These payments were not recoverable in the event of a termination.

The impairment of plant and equipment relates to specific items used for the delivery of service to ITV.

The impairment of intangible assets relates to the write off of unrecovered costs incurred in securing the ITV contract as well as interactive gaming software. Other costs mainly comprise staff redundancy expense.

Other restructuring costs

Other exceptional restructuring costs in the current year relate to further costs in respect of the establishment of an in house call centre and further rationalisation of the Interactive cost base together with associated head office support costs within the Interactive and Telephone Betting segments as well as further rationalisation of the operating cost base within the Football Pools segment.

Exceptional restructuring costs in the prior year relate to the establishment of an in house call centre operation within the Telephone Betting segment, further rationalisation of the Football Pools operating cost base, and rationalisation of Interactive development teams consequent upon the transition from development to trading stage.

Notes to the Financial Statements

For the 52 weeks ended 6 January 2006

3. Finance costs

	52 weeks ended 6 January 2006	53 weeks ended 7 January 2005 (restated)
	£m	£m
Interest payable on bank loans and overdrafts	(7.5)	(7.3)
(Loss) on fair value adjustments to financial instruments	—	(0.1)
Interest payable and similar items	(7.5)	(7.4)
Interest receivable	0.2	0.5
(Loss) on fair value adjustments to financial instruments	(0.2)	(0.4)
Interest receivable	—	0.1
Net interest payable and similar items	(7.5)	(7.3)

4. (Loss)/profit before taxation

	52 weeks ended 6 January 2006	53 weeks ended 7 January 2005
	£m	£m
(Loss)/profit before taxation is stated after charging/(crediting):		
Employee benefits expense (see note 5)	10.2	11.6
Profit on disposal of property, plant and equipment	(0.4)	—
Impairment of tangible fixed assets	1.6	—
Impairment of intangible fixed assets	1.0	—
Depreciation of property, plant and equipment		
– Owned assets	2.1	1.4
– Under finance leases	0.1	0.1
Amortisation of intangibles	1.4	1.1
Other operating lease rentals – property	0.3	0.3
Trade receivables impairment	0.2	0.1
One off Football Pools marketing campaign	—	3.2
Group audit fees including expenses	0.1	0.1
Fees paid to auditors for non-audit services	—	0.1

The fees of the auditors in relation to their audit of the Parent Company are £12,000 (2005: £10,000).

The fees paid to auditors for non-audit services in the 53 weeks to 7 January 2005 relate to taxation advisory services.

5. Staff costs

	Group		Company	
	52 weeks ended 6 January 2006 Number	53 weeks ended 7 January 2005 (restated) Number	52 weeks ended 6 January 2006 Number	53 weeks ended 7 January 2005 (restated) Number
Average number of monthly employees comprised:				
Sales and marketing	139	151	—	—
Operations and distribution	184	220	—	—
Administration	126	134	4	7
	449	505	4	7
Their aggregate remuneration comprised:	£m	£m	£m	£m
Wages and salaries	8.9	10.0	0.5	0.8
Social security costs	0.8	1.0	0.1	0.1
Other pension costs	0.5	0.6	—	—
	10.2	11.6	0.6	0.9

6. Directors' and key management remuneration

Directors

	52 weeks ended 6 January 2006 £'000	53 weeks ended 7 January 2005 £'000
Directors' aggregate emoluments	474	474
Defined contribution scheme payments	18	35
	492	509

Details of individual Director's remuneration and share options granted are given in the Remuneration Report on pages 24 and 25. This information forms part of the financial statements.

Key management compensation

	52 weeks ended 6 January 2006 £'000	53 weeks ended 7 January 2005 £'000
Salaries and short term employee benefits	1,106	1,012

The key management figures given above include Directors.

Notes to the Financial Statements

For the 52 weeks ended 6 January 2006

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

	52 weeks ended 6 January 2006	53 weeks ended 7 January 2005 (restated)
	£m	£m
Current tax – continuing operations		
UK corporation tax at 30% (2005: 30%)	—	2.4
Adjustments in respect of prior periods	—	(0.1)
Total current tax	—	2.3
Deferred tax – continuing operations		
Current year (credit)/charge	(0.6)	0.3
Total deferred tax	(0.6)	0.3
Total taxation (credit)/charge	(0.6)	2.6

The taxation (credit)/charge for the period is lower (2005: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	52 weeks ended 6 January 2006	53 weeks ended 7 January 2005
	£m	£m
(Loss)/profit on ordinary activities before tax	(6.4)	8.2
Loss/(profit) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005: 30%)	(1.9)	2.4
Effects of:		
Permanent differences	0.1	0.3
Trading losses not recognised	1.2	—
Adjustments to tax in respect of prior periods	—	(0.1)
Total taxation (credit)/charge	(0.6)	2.6

8. Losses of holding company

Of the loss for the financial year, £14.8m (2005: loss of £6.2m) 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.

The individual profit and loss account of Sportech PLC was approved by the Board on 26 April 2006.

9. (Loss)/earnings per share

The calculations of (loss)/earnings per share (EPS) are based on the following (losses)/profits attributable to ordinary shareholders and the weighted average numbers of shares:

	52 weeks ended 6 January 2006			53 weeks ended 7 January 2005 (restated)		
	(Loss) £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 EPS	(5.8)	592,074	(0.97)p	5.6	592,074	0.96p

The calculations of adjusted (pre-exceptional) EPS are based on the following profits attributable to ordinary shareholders and the weighted average numbers of shares and an estimated tax charge of 30%:

	52 weeks ended 6 January 2006			53 weeks ended 7 January 2005 (restated)		
	Earnings £m	Weighted average number of shares '000	Per share amount Pence	Earnings £m	Weighted average number of shares '000	Per share amount Pence
Operating profit before restructuring costs	17.2	592,074	2.91p	16.7	592,074	2.83p
Net interest	(7.5)	592,074	(1.27)p	(7.3)	592,074	(1.24)p
	9.7	592,074	1.64p	9.4	592,074	1.59p
Tax at 30%	(2.9)	592,074	(0.50)p	(2.8)	592,074	(0.48)p
Adjusted (pre-exceptional) EPS	6.8	592,074	1.14p	6.6	592,074	1.11p

10. Goodwill

Group	52 weeks ended 6 January 2006 £'000	53 weeks ended 7 January 2005 £'000
Cost		
At 8 January 2005 (as restated) and 6 January 2006	145.2	145.2
Aggregate impairment		
At 8 January 2005 (as restated) and 6 January 2006	—	—
Net book value at 6 January 2006	145.2	145.2

The recoverable amounts are measured based on value in use. The key assumptions in the value in use calculations were:

- the forecasts utilised are based upon the budget approved by the Board for 2006 and on cash flow projections for 2007–2010 also approved by the Board, with a terminal value at 2010 calculated in accordance with IAS;
- the use of a terminal value beyond 2010 (the current termination date of the licence to use the name Littlewoods) reflects an assumption that the retention or otherwise of the Littlewoods name will not materially change the projections;
- cash flows have been discounted at 7.5%, reflecting the weighted average cost of capital for the Company; and
- that there are no material adverse changes in legislation.

Notes to the Financial Statements

For the 52 weeks ended 6 January 2006

11. Intangible fixed assets

Group	Software £m	Other £m	Total £m
Cost			
At 8 January 2005 (as restated)	5.4	1.5	6.9
Additions	0.6	—	0.6
At 6 January 2006	6.0	1.5	7.5
Amortisation and impairment			
At 8 January 2005 (as restated)	3.9	0.2	4.1
Provided during the period	1.1	0.3	1.4
Impairment losses	—	1.0	1.0
At 6 January 2006	5.0	1.5	6.5
Net book value at 6 January 2006	1.0	—	1.0
Company			
Cost			
At 8 January 2005	—	1.5	1.5
Additions	—	—	—
At 6 January 2006	—	1.5	1.5
Amortisation and impairment			
At 8 January 2005 (as restated)	—	0.2	0.2
Provided during the period	—	0.3	0.3
Impairment losses	—	1.0	1.0
At 6 January 2006	—	1.5	1.5
Net book value at 6 January 2006	—	—	—
Group			
Cost			
At 4 January 2004 (as restated)	4.5	1.2	5.7
Additions	1.0	0.3	1.3
Disposals	(0.1)	—	(0.1)
At 7 January 2005	5.4	1.5	6.9
Amortisation and impairment			
At 4 January 2004 (as restated)	3.0	—	3.0
Provided during the period	0.9	0.2	1.1
At 7 January 2005	3.9	0.2	4.1
Net book value at 7 January 2005	1.5	1.3	2.8
Company			
Cost			
At 4 January 2004	—	1.2	1.2
Additions	—	0.3	0.3
At 7 January 2005	—	1.5	1.5
Amortisation and impairment			
At 4 January 2004	—	—	—
Provided during the period	—	0.2	0.2
At 7 January 2005	—	0.2	0.2
Net book value at 7 January 2005	—	1.3	1.3

12. Property, plant and equipment

Group	Long leasehold land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Total £m
Cost				
At 8 January 2005 (as restated)	1.8	11.3	0.9	14.0
Additions	0.2	0.9	—	1.1
Reclassification	—	0.1	(0.1)	—
Fully depreciated assets written off	—	(1.2)	—	(1.2)
Disposals	—	(0.2)	(0.7)	(0.9)
At 6 January 2006	2.0	10.9	0.1	13.0
Depreciation				
At 8 January 2005 (as restated)	0.4	6.1	—	6.5
Provided during the period	0.3	1.9	—	2.2
Impairment losses	—	0.9	0.7	1.6
Fully depreciated assets written off	—	(1.2)	—	(1.2)
Disposals	—	(0.2)	(0.7)	(0.9)
At 6 January 2006	0.7	7.5	—	8.2
Net book value at 6 January 2006	1.3	3.4	0.1	4.8

Assets held under finance leases have the following net book amount:

Cost	—	0.9	—	0.9
Aggregate depreciation	—	(0.2)	—	(0.2)
Net book value at 6 January 2006	—	0.7	—	0.7

Company

Cost				
At 8 January 2005	—	0.8	—	0.8
Additions	—	—	—	—
Disposal	—	(0.1)	—	(0.1)
At 6 January 2006	—	0.7	—	0.7
Depreciation				
At 8 January 2005	—	0.3	—	0.3
Provided during the period	—	0.1	—	0.1
Disposals	—	(0.1)	—	(0.1)
At 6 January 2006	—	0.3	—	0.3
Net book value at 6 January 2006	—	0.4	—	0.4

Notes to the Financial Statements

For the 52 weeks ended 6 January 2006

12. Property, plant and equipment continued

Group	Long leasehold land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Total £m
Cost				
At 4 January 2004 (as restated)	1.8	10.5	1.0	13.3
Additions	—	0.7	0.9	1.6
Reclassification	—	1.0	(1.0)	—
Disposals	—	(0.9)	—	(0.9)
At 7 January 2005	1.8	11.3	0.9	14.0
Depreciation				
At 4 January 2004 (as restated)	0.2	5.5	—	5.7
Provided during the period	0.2	1.3	—	1.5
Disposals	—	(0.7)	—	(0.7)
At 7 January 2005	0.4	6.1	—	6.5
Net book value at 7 January 2005	1.4	5.2	—	7.5

Assets held under finance leases have the following net book amount:

Cost	—	0.9	—	0.9
Aggregate depreciation	—	(0.1)	—	(0.1)
Net book value at 7 January 2005	—	0.8	—	0.8

Company

Cost				
At 4 January 2004 and 7 January 2005	—	0.8	—	0.8
Depreciation				
At 4 January 2004	—	0.1	—	0.1
Provided during the period	—	0.2	—	0.2
At 7 January 2005	—	0.3	—	0.3
Net book value at 7 January 2005	—	0.5	—	0.5

13. Investments

	Group		Company	
	6 January 2006 £m	7 January 2005 £m	6 January 2006 £m	7 January 2005 £m
Investments in Group companies				
At 7 January 2005 and 6 January 2006	—	—	167.1	167.1

Investments in Group companies are stated at cost.

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 & 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
Littlewoods Isle of Man Limited	Ordinary shares	100%	Gaming
Littlewoods Alderney Limited	Ordinary shares	100%	Gaming
Littlewoods Bet Direct Limited	Ordinary shares	100%	Dormant
LWL Management NV	Ordinary shares	100%	Betting & Gaming
Bet Direct NV	Ordinary shares	100%	Betting & Gaming
Sportech Trustees Limited	Ordinary shares	100%	Pension fund trustee

All of these companies have been included in the consolidated financial statements. All of these companies 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), Littlewoods Alderney Limited (incorporated in Alderney), LWL Management NV (incorporated in the Netherlands Antilles) and Bet Direct NV (incorporated in the Netherlands Antilles).

14. Trade and other receivables

	Group		Company	
	6 January 2006 £m	7 January 2005 £m	6 January 2006 £m	7 January 2005 £m
Trade receivables	0.9	1.4	—	—
Less provision for impairment of receivables	(0.4)	(0.2)	—	—
Trade receivables – net	0.5	1.2	—	—
Amounts owed by Group companies	—	—	1.3	—
Other debtors	0.4	0.2	0.4	0.1
Prepayments	2.0	3.0	0.5	1.0
	2.9	4.4	2.2	1.1

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15. Deferred tax asset

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% (2005: 30%).

The movement on the deferred tax account is as follows:

	Group		Company	
	6 January 2006 £m	7 January 2005 £m	6 January 2006 £m	7 January 2005 £m
At 8 January 2005	0.3	0.6	—	—
Profit and loss credit/(charge)	0.6	(0.3)	—	—
Other	0.1	—	—	—
Net deferred tax asset at 6 January 2006	1.0	0.3	—	—

Deferred tax assets have been recognised in respect of all tax losses and all other temporary differences giving rise to deferred tax assets where it is probable that these assets will be recovered. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the liabilities net. The movement in deferred tax assets and liabilities during the period are shown below:

Deferred tax assets

	Capital allowances £m	Total £m
At 8 January 2005	0.3	0.3
Profit and loss credit	0.9	0.9
Other	0.1	0.1
At 6 January 2006	1.3	1.3

In addition to the deferred tax asset which has been recognised the Group has not recognised further deferred tax assets of £2.4m arising from unutilised trading losses (Company: £1.2m) as the Directors do not consider it probable that future profits will be available to offset against these losses.

Deferred tax liabilities

	Capital allowances £m	Other £m	Total £m
At 8 January 2005	—	—	—
Profit and loss charge	(0.2)	(0.1)	(0.3)
At 6 January 2006	(0.2)	(0.1)	(0.3)

16. Cash and cash equivalents

	Group		Company	
	6 January 2006 £m	7 January 2005 £m	6 January 2006 £m	7 January 2005 £m
Cash balances held on behalf of registered charities ¹	1.6	2.1	—	—
Cash balance constituting committed security ²	—	0.3	—	—
	1.6	2.4	—	—

Notes:

1. Cash balances held on behalf of registered charities relate to the sale of charity scratchcards and lotto products 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 related to deferred payments required to be made under a contractual obligation of a subsidiary company. The contract was with Rehab Charity Lotteries, and relates to the running of charity lotteries. This contract terminated during the financial period.

17. Trade and other payables

	Group		Company	
	6 January 2006 £m	7 January 2005 £m	6 January 2006 £m	7 January 2005 £m
Trade payables	4.2	3.7	0.2	0.1
Amounts owed to Group companies	—	—	34.2	40.1
Other taxes and social security costs	1.8	2.1	—	—
Accruals and deferred income	11.3	11.6	0.4	0.4
	17.3	17.4	34.8	40.6

18. Current tax liabilities

	Group		Company	
	6 January 2006 £m	7 January 2005 £m	6 January 2006 £m	7 January 2005 £m
Current tax liabilities	—	1.3	—	—

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19. Financial liabilities – borrowings

	Group		Company	
	6 January 2006 £m	7 January 2005 £m	6 January 2006 £m	7 January 2005 £m
Current				
Bank overdrafts due within one year	4.5	0.3	24.1	1.0
Bank loans due within one year	18.0	10.9	18.0	10.9
	22.5	11.2	42.1	11.9
Finance lease obligations	0.3	0.3	—	—
	22.8	11.5	42.1	11.9

	Group		Company	
	6 January 2006 £m	7 January 2005 £m	6 January 2006 £m	7 January 2005 £m
Non-current				
Bank loans due after one year	85.0	101.0	85.0	101.0
	85.0	101.0	85.0	101.0
Finance lease obligations	0.3	0.6	—	—
	85.3	101.6	85.0	101.0

Bank loans bear interest based on LIBOR.

20. Financial instruments

Financial risk management policies and objectives

The Group's treasury arrangements for the provision of finance and management of liquidity are undertaken via its centralised accounting unit. The Group's principal financial instruments, other than derivatives, comprise bank loans, overdrafts, finance leases and cash and term 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 main risks arising from the Group's operations are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks.

The Group does not trade in financial instruments. The Group's derivative transactions comprise interest rate swaps and caps. These transactions are entered into solely for the purposes of managing the Group's interest rate risk. Hedge accounting has not been applied to these financial instruments as, on adoption of IAS, the appropriate documentation to satisfy the conditions for hedge accounting was not in place. At 6 January 2006, all interest rate swap and cap contracts had expired.

Numerical financial instruments disclosures are set out below. A description of the policies relating to financial instruments is set out in the accounting policies.

	Group		Company	
	6 January 2006 £m	7 January 2005 £m	6 January 2006 £m	7 January 2005 £m
Interest rate swaps	—	0.2	—	0.2

Net fair value of derivative financial instruments

	Group		Company	
	6 January 2006 £m	7 January 2005 £m	6 January 2006 £m	7 January 2005 £m
Contracts with positive fair values:				
Interest rate swaps	—	0.2	—	0.2

20. Financial instruments continued

Interest rate swaps

There were no interest rate swap contracts at 6 January 2006. The notional principle amount of the outstanding interest rate swap contract at 7 January 2005 was £50.0m. The fixed interest rate payable under the contract was 3.5% and interest was receivable at LIBOR.

Fair value of non-current borrowings

	Group		Company	
	Book value £m	Fair value £m	Book value £m	Fair value £m
As at 6 January 2006				
Bank loans due after one year	85.0	72.4	85.0	72.4
Finance lease obligations	0.3	0.3	—	—
	85.3	72.7	85.0	72.4

	Group		Company	
	Book value £m	Fair value £m	Book value £m	Fair value £m
As at 7 January 2005				
Bank loans due after one year	101.0	82.6	101.0	82.6
Finance lease obligations	0.6	0.5	—	—
	101.6	83.1	101.0	82.6

The fair values are based on cash flows discounted using a rate based on borrowings of 7.5% (7 January 2005: 7.5%).

Maturity of financial liabilities

Bank loans are repayable as follows:

	Group		Company	
	6 January 2006 £m	7 January 2005 £m	6 January 2006 £m	7 January 2005 £m
Within one year	18.0	10.9	18.0	10.9
Between one and two years	20.0	18.0	20.0	18.0
Between two and five years	65.0	83.0	65.0	83.0
	103.0	111.9	103.0	111.9

Subsequent to the end of the financial year, loan repayments have been renegotiated with the Bank of Scotland and the repayment due within one year has been reduced from £18.0m to £5.0m. Rescheduling of the balance of loans repayable will be subject to further negotiation with the Bank of Scotland during the next annual renewal at the start of 2007.

The minimum lease payments under finance leases fall due as follows:

	Group	
	6 January 2006 £m	7 January 2005 £m
Not later than one year	0.3	0.3
Not later than one year but not more than five	0.3	0.7
More than five years	—	—
	0.6	1.0
Future finance charges on finance leases	—	(0.1)
Present value of finance lease liabilities	0.6	0.9

Notes to the Financial Statements

For the 52 weeks ended 6 January 2006

20. Financial instruments continued

Borrowing facilities

The Group had the following undrawn committed borrowing facilities available at 6 January 2006:

	Floating rate £m	6 January 2006 £m	7 January 2005 £m
Expiring within one year	1.5	1.5	5.7

This facility is an annual facility that was renewed in February 2006. This facility incurs a commitment fee at market rates.

21. Called up share capital

Authorised

	6 January 2006		7 January 2005	
	'000	£m	'000	£m
Ordinary shares of £0.05p each				
At 7 January 2005 and 6 January 2006	785,000	39.3	785,000	39.3

Allotted, called up and fully paid

	6 January 2006		7 January 2005	
	'000	£m	'000	£m
Ordinary shares of £0.05p each				
At 7 January 2005 and 6 January 2006	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 8.25p to 17.42p under share option schemes approved by the shareholders. During the 52 weeks to 6 January 2006 options on 7,000,000 shares were granted (2005: 5,200,000), no options were exercised (2005: Nil), and 7,600,000 options lapsed (2005: 5,700,000). 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	6 January 2006 Number	7 January 2005 Number
2001	14.75	2004–2011	2,600,000	4,000,000
2002	17.42	2005–2012	2,400,000	4,400,000
2003	12.25	2006–2013	2,400,000	5,400,000
2004	13.25	2007–2014	1,500,000	2,700,000
2005 (September)	8.25	2008–2015	5,000,000	—
2005 (December)	12.00	2008–2015	2,000,000	—
			15,900,000	16,500,000

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 six months prior to the date the option is first exercised.

Exercise of the 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.

21. Called up share capital continued**Potential issue of ordinary shares continued**

Exercise of the September 2005 options is subject to the share price reaching the following closing prices:

Shares	Closing price
1,500,000	12.50p
1,500,000	17.50p
1,000,000	22.50p
1,000,000	27.50p
5,000,000	

Exercise of the December 2005 options is subject to the share price reaching the following closing prices:

Shares	Closing price
1,000,000	17.50p
500,000	22.50p
500,000	27.50p
2,000,000	

The market price of the ordinary shares at 6 January 2006 was 12.0p and the range during the year was 7.88p to 13.0p.

Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of the grant. Options were valued using the Black-Scholes option pricing model. No performance conditions are included in the fair value calculation. The fair value per option granted and the assumptions used in the calculations are as follows:

Grant date	September 2005	December 2005
Risk free interest rate	4.18%	4.18%
Vesting period	3 years	3 years
Option life	10 years	10 years
Expected life of options	5 years	5 years
Expected share price volatility	66.29%	66.29%
Dividend growth	—	—
Fair value of option	5.56p	8.10p

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate is based on Bank of England bonds of a term consistent with the assumed option life. Dividend growth is based on historical dividends over the last three years.

There is no charge for the March 2003 or April 2004 options, as they are not expected to vest.

22. Reserves

	Other reserves £m	Profit and loss account £m
Group		
At 7 January 2005 (as restated)	0.1	7.4
Loss for the year	—	(5.8)
Actuarial gain	0.1	—
At 6 January 2006	0.2	1.6
Company		
At 7 January 2005 (as restated)		(7.0)
Loss for the year		(14.8)
At 6 January 2006		(21.8)

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23. Cash flow from operating activities

Reconciliation of operating profit to net cash flow from operating activities

	Group		Company	
	52 weeks ended 6 January 2006	53 weeks ended 7 January 2005 (restated)	52 weeks ended 6 January 2006	53 weeks ended 7 January 2005 (restated)
	£m	£m	£m	£m
Continuing operations				
Net (loss)/profit	(5.8)	5.6	(14.8)	(6.2)
Adjustments for:				
Taxation	(0.6)	2.6	4.6	(2.7)
Depreciation	2.2	1.5	0.1	0.2
Impairment of property, plant and equipment	1.6	—	—	—
Profit on disposal of property, plant and equipment	(0.4)	—	—	—
Amortisation of intangibles	1.4	—	0.3	0.2
Impairment of intangibles	1.0	1.1	1.0	—
Interest income	—	(0.1)	—	—
Interest expense	7.5	7.4	7.4	7.4
Other non-cash changes	0.2	—	0.1	—
Changes in working capital:				
Decrease/(increase) in prepayments	5.9	(5.9)	5.9	(5.9)
Decrease in trade and other receivables	2.0	4.5	0.7	23.0
Decrease in payables	(0.1)	(2.4)	(3.0)	(8.8)
Cash generated from/(used in) continuing operations	14.9	14.3	(6.9)	7.2
Cash generated from/(used in) operations	14.9	14.3	(6.9)	7.2

24. Capital commitments

	Group		Company	
	6 January 2006	7 January 2005	6 January 2006	7 January 2005
	£m	£m	£m	£m
Contracts placed for future capital expenditure not provided for in the financial statements	0.1	—	—	—

25. Operating lease commitments

Commitments under non-cancellable operating leases in respect of property are as follows:

Group	Group		Company	
	6 January 2006	7 January 2005	6 January 2006	7 January 2005
	Property £m	Property £m	Property £m	Property £m
Expiring:				
Within one year	—	—	—	—
Later than one year and less than five years	0.2	0.3	—	—
After five years	1.4	1.7	1.4	1.7
	1.6	2.0	1.4	1.7

26. 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 potential liability in respect of the points not provided for in these financial statements amounts to £3.0m (2005: £2.9m). This liability has not been provided for as it is the judgement of management that it will never crystallise.

27. Related party transactions

The extent of transactions with related parties of Sportech PLC and the nature of the relationship with them are summarised below:

- a) The Foundation for Sports and 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. Until 2005, contributions were made by Littlewoods Promotions Limited and the trustees include Gary Speakman, a Director of Sportech PLC, Littlewoods Promotions Limited and Littlewoods Lotteries Limited.

Contributions of £Nil were made in the 52 weeks to 6 January 2006 (2005: £0.3m). At 6 January 2006, £Nil (7 January 2005: £Nil) was owed to the Foundation for Sports and Arts.

Subsequent to 8 January 2005, the Foundation for Sports and Arts has received contributions from Charities Trust. These contributions have been generated from charity lottery products managed on behalf of Charities Trust by Littlewoods Lotteries Limited. During the 52 weeks to 6 January 2006, £1.2m was raised and passed to the Foundation for Sports and Arts via Charities Trust (2005: £Nil), and Littlewoods Lotteries earned £2.0m in lottery management fees (2005: £Nil).

Sportech PLC also provides accommodation and administrative support to the Foundation for Sports and Arts for which it charged the Foundation for Sports and Arts £0.1m (2005: £0.1m). This amount was included within trade receivables at 6 January 2006.

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

The details of the balances on the loans as at 6 January 2006 and 7 January 2005 are set out in notes 19 and 20. Interest on these loans amounting to £7.5m (2005: £7.3m) 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 20. £Nil (2005: £Nil) of interest was charged and £0.2m (2005: £0.4m) received under interest rate swap contracts.

- c) The Group's head office, Sportech House, is leased from 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 (2005: £0.2m). The lease period is for ten years.

- d) Key management compensation is disclosed in note 6.

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For the 52 weeks ended 6 January 2006

28. 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:

	52 weeks ended 6 January 2006 £m	53 weeks ended 7 January 2005 £m
Defined contribution schemes	0.3	0.4
Defined benefit scheme contributions	0.2	0.2
Total pension contributions (see note 5)	0.5	0.6

Defined contribution scheme

Those employees who joined the Group consequent upon the acquisition of Littlewoods Gaming (formerly Littlewoods Leisure) 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 plc and Sportech, a defined benefit scheme has been set up for those employees who joined the Group consequent upon the acquisition of Littlewoods Gaming (formerly Littlewoods Leisure) and who were aged 50 or over on 4 September 2000, the date of the acquisition. This scheme was formed on 6 April 2001.

The most recent actuarial valuation was carried out at 31 December 2003 and updated to 6 January 2006 by the independent actuary. The principal assumptions made by the actuary were:

	52 weeks ended 6 January 2006 %	53 weeks ended 7 January 2005 %
Rate of increase in pensionable salaries	4.4	4.3
Rate of increase in pensions in payment	2.9	2.8
Discount rate	4.8	5.3
Inflation assumption	2.9	2.8
Expected return on plan assets	5.6	6.5

The expected return on plan assets is based on market expectations at the beginning of the period for returns over the entire life of the benefit obligation.

28. Pension scheme continued**Pension and other post retirement obligations**

The amounts recognised in the balance sheet are as follows:

	6 January 2006 £m	7 January 2005 £m
Present value of funded obligation	(1.2)	(1.0)
Fair value of plan assets	1.5	1.2
Net asset	0.3	0.2

The major categories of plan assets as a percentage of total plan assets are as follows:

	6 January 2006 %	7 January 2005 %
Equities	54	82
Bonds	5	11
Cash	41	7

The amounts recognised in the profit and loss account are as follows:

	52 weeks to 6 January 2006 £m	53 weeks to 7 January 2005 £m
Current service cost	0.2	0.2
Interest cost	0.1	0.1
Expected return on plan assets	(0.1)	(0.1)
Past service cost	—	—
Total included within staff employee benefits	0.2	0.2

Changes in the present value of defined benefit obligations are as follows:

	6 January 2006 £m	7 January 2005 £m
Present value of obligation, 8 January 2005	1.0	0.8
Service cost	0.2	0.2
Interest cost	0.1	0.1
Benefits paid	(0.1)	(0.1)
Present value of obligation, 6 January 2006	1.2	1.0

Notes to the Financial Statements

For the 52 weeks ended 6 January 2006

28. Pension scheme continued

Pension and other post retirement obligations continued

Changes in the fair value of plan assets are as follows:

	6 January 2006 £m	7 January 2005 £m
Fair value of plan assets, 8 January 2005	1.2	1.0
Expected return on plan assets	0.1	0.1
Contributions	0.2	0.2
Benefits paid	(0.1)	(0.1)
Actuarial gains	0.1	—
Fair value of plan assets, 6 January 2006	1.5	1.2

Analysis of movement in the balance sheet asset:

	6 January 2006 £m	7 January 2005 £m
8 January 2005	0.2	0.2
Total expense	(0.2)	(0.2)
Contributions	0.2	0.2
Net actuarial gains recognised in the year	0.1	—
6 January 2006	0.3	0.2

Cumulative actuarial gains and losses recognised in equity:

	6 January 2006 £m	7 January 2005 £m
8 January 2005	0.1	0.1
Net actuarial gains recognised in the year	0.1	—
6 January 2006	0.2	0.1

The actual return on plan assets was £0.2m (2005: £0.2m).

28. Pension scheme continued**Pension and other post retirement obligations continued**

History of experience gains and losses

	6 January 2006	7 January 2005	3 January 2004	3 January 2003
Experience adjustments arising on scheme assets:				
Amount (£m)	0.1	—	0.2	—
Percentage of scheme assets	7%	—	20%	—
Experience adjustments arising on scheme liabilities:				
Amount (£m)	(0.1)	(0.1)	—	—
Percentage of the present value of scheme liabilities	(8%)	(10%)	—	—
Present value of scheme liabilities (£m)	(1.2)	(1.0)	(0.8)	(0.5)
Fair value of scheme assets (£m)	1.5	1.2	1.0	0.6
Surplus (£m)	0.3	0.2	0.2	0.1

29. Reconciliation of net assets and profit under UK GAAP to IFRS

Sportech PLC reported under UK GAAP in its previously published financial statements for the 53 weeks ended 7 January 2005. The following analysis shows a reconciliation of net assets and profit as reported under UK GAAP as at 7 January 2005 to the revised net assets and profit under IFRS as reported in these financial statements. In addition there is a reconciliation of net assets under UK GAAP to IFRS at the transition date for the Company, being 4 January 2004.

Sportech PLC's transition date to IFRS is 4 January 2004. The Group prepared its opening IFRS balance sheet at that date. The Group's IFRS adoption date is 7 January 2005.

The principal UK GAAP to IFRS adjustments relate to:

- goodwill is no longer amortised but is subject to an impairment review, in line with IFRS 3 "Business Combinations";
- adoption of IAS 19 "Employee Benefits", recognising employee benefit obligations, particularly pensions on the balance sheet;
- recognition of the cost of share-based payments granted after 7 November 2002 in line with IFRS 2 "Share-based Payment";
- Betting and Gaming transactions have been determined as coming within the scope of IAS 39 "Financial Instruments: Recognition and Measurement". Accordingly, revenue previously reported as customer entry fees under UK GAAP is now reported as customer entry fees net of winnings returned to customers;
- recognition of fair value of financial instruments, in line with IAS 39 "Financial Instruments: Recognition and Measurement"; and
- tax implications of the adjustments outlined above in accordance with IAS 12 "Income Taxes".

Notes to the Financial Statements

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29. Reconciliation of net assets and profit under UK GAAP to IFRS continued

On transition to IFRS, an entity is generally required to apply IFRS retrospectively, except where an exemption is available under IFRS 1 "First time Adoption of International Financial Reporting Standards". The Group has applied the mandatory exemptions and certain of the optional exemptions from full retrospective application of IFRS. The following is a summary of the key elections from IFRS 1 that were made by the Group:

- the Group has elected to adopt the IFRS 1 exemption in relation to business combinations and will only apply IFRS 3 "Business Combinations" prospectively from 4 January 2004. As a result, the balance of goodwill under UK GAAP as at 3 January 2004 will be deemed to be the cost of goodwill at 4 January 2004;
- the Group has elected to apply the share-based payment exemption. It has applied IFRS 2 to those options that were issued after 7 November 2002 but have not vested by 7 January 2005; and
- the Group has applied IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" for all periods presented and has therefore not taken advantage of the exemption in IFRS 1 that would enable the Group to only apply these standards from 7 January 2005.

In addition to the above, there are presentational changes arising from the move to IFRS. The financial statements are presented in accordance with IAS 1 "Presentation of Financial Statements".

In respect of cash flows, the transition from UK GAAP to IFRS does not change any of the cash flows of the Group. The IFRS cash flow format is similar to UK GAAP but presents various cash flows in different categories and in a different order from the UK cash flow statement. All of the IFRS accounting adjustments net out within cash generated from operations.

Reconciliation of profit before interest

	Note	Group 53 weeks ended 7 January 2005 £m
Profit before interest reported under UK GAAP		6.3
Reduction in goodwill amortisation	(a)	9.2
Profit before interest reported under IFRS		15.5
		Group 53 weeks ended 7 January 2005 £m
(Loss) for the year reported under UK GAAP		(3.3)
Reduction in goodwill amortisation	(a)	9.2
Financial instrument revaluations	(d)	(0.2)
Taxation impact of IFRS changes	(e)	(0.1)
Profit for the year reported under IFRS		5.6

29. Reconciliation of net assets and profit under UK GAAP to IFRS continued**Reconciliation of profit and loss account**

For the 53 weeks ended 7 January 2005

	Note	Group		
		Previous GAAP £m	Effect of transition to IFRS £m	IFRS £m
Continuing operations				
Revenue	(h)	497.0	(410.7)	86.3
Cost of sales	(i)	(439.9)	410.7	(29.2)
Gross profit		57.1	—	57.1
Other income				
Distribution costs		(0.1)	—	(0.1)
Administrative expenses	(j)	(50.7)	9.2	(41.5)
Operating profit before restructuring costs		7.5	9.2	16.7
Restructuring costs		(1.2)	—	(1.2)
Operating profit		6.3	9.2	15.5
Interest payable and similar items		(7.6)	0.2	(7.4)
Interest receivable		0.5	(0.4)	0.1
Profit/(loss) before taxation		(0.8)	9.0	8.2
Taxation		(2.5)	(0.1)	(2.6)
Profit/(loss) for the year from continuing operations		(3.3)	8.9	5.6
Profit/(loss) for the financial year		(3.3)	8.9	5.6

Notes to the Financial Statements

For the 52 weeks ended 6 January 2006

29. Reconciliation of net assets and profit under UK GAAP to IFRS continued

Reconciliation of equity

As at 4 January 2004 (date of transition to IFRS)

	Note	Group			Company		
		Previous GAAP £m	Effect of transition to IFRS £m	IFRS £m	Previous GAAP £m	Effect of transition to IFRS £m	IFRS £m
ASSETS							
Non-current assets							
Goodwill	(a)	145.2	—	145.2	—	—	—
Other intangible assets	(b)	1.2	1.5	2.7	1.2	—	1.2
Property, plant and equipment	(b)	9.1	(1.5)	7.6	0.7	—	0.7
Investments in subsidiaries		—	—	—	167.1	—	167.1
Retirement benefit assets	(f)	—	0.2	0.2	—	—	—
Deferred tax assets	(e)	0.7	(0.1)	0.6	—	—	—
		156.2	0.1	156.3	169.0	—	169.0
Current assets							
Trade and other receivables		8.9	—	8.9	24.1	—	24.1
Financial assets – derivative financial instruments	(d)	0.6	0.1	0.7	0.6	0.1	0.7
Cash and cash equivalents		4.1	—	4.1	—	—	—
		13.6	0.1	13.7	24.7	0.1	24.8
LIABILITIES							
Current liabilities							
Financial liabilities – borrowings	(22.8)	—	—	(22.8)	(21.5)	—	(21.5)
Trade and other payables	(19.8)	—	—	(19.8)	(49.4)	—	(49.4)
Current tax liabilities	(1.7)	—	—	(1.7)	(0.1)	—	(0.1)
		(44.3)	—	(44.3)	(71.0)	—	(71.0)
Net current liabilities		(30.7)	0.1	(30.6)	(46.3)	0.1	(46.2)
Non-current liabilities							
Financial liabilities – borrowings	(94.2)	—	—	(94.2)	(94.0)	—	(94.0)
NET ASSETS		31.3	0.2	31.5	28.7	0.1	28.8
SHAREHOLDERS' EQUITY							
Ordinary shares		29.6	—	29.6	29.6	—	29.6
Other reserves	(g)	—	0.1	0.1	—	—	—
Retained earnings	(g)	1.7	0.1	1.8	(0.9)	0.1	(0.8)
TOTAL SHAREHOLDERS' EQUITY		31.3	0.2	31.5	28.7	0.1	28.8

29. Reconciliation of net assets and profit under UK GAAP to IFRS continued**Reconciliation of equity continued**

As at 7 January 2005

	Note	Group			Company		
		Previous GAAP £m	Effect of transition to IFRS £m	IFRS £m	Previous GAAP £m	Effect of transition to IFRS £m	IFRS £m
ASSETS							
Non-current assets							
Goodwill	(a)	136.0	9.2	145.2	—	—	—
Other intangible assets	(b)	1.3	1.5	2.8	1.3	—	1.3
Property, plant and equipment	(b)	9.0	(1.5)	7.5	0.5	—	0.5
Investments in subsidiaries		—	—	—	167.1	—	167.1
Prepayments	(c)	5.9	—	5.9	5.9	—	5.9
Retirement benefit assets	(f)	—	0.2	0.2	—	—	—
Deferred tax assets	(e)	0.5	(0.2)	0.3	—	—	—
		152.7	9.2	161.9	174.8	—	174.8
Current assets							
Trade and other receivables		4.4	—	4.4	1.1	—	1.1
Financial assets – derivative financial instruments	(d)	0.3	(0.1)	0.2	0.3	(0.1)	0.2
Cash and cash equivalents		2.4	—	2.4	—	—	—
		7.1	(0.1)	7.0	1.4	(0.1)	1.3
LIABILITIES							
Current liabilities							
Financial liabilities – borrowings		(11.5)	—	(11.5)	(11.9)	—	(11.9)
Trade and other payables		(17.4)	—	(17.4)	(40.6)	—	(40.6)
Current tax liabilities		(1.3)	—	(1.3)	—	—	—
		(30.2)	—	(30.2)	(52.5)	—	(52.5)
Net current liabilities		(23.1)	(0.1)	(23.2)	(51.1)	—	(51.2)
Non-current liabilities							
Financial liabilities – borrowings		(101.6)	—	(101.6)	(101.0)	—	(101.0)
		(101.6)	—	(101.6)	(101.0)	—	(101.0)
NET ASSETS		28.0	9.1	37.1	22.7	(0.1)	22.6
SHAREHOLDERS' EQUITY							
Ordinary shares		29.6	—	29.6	29.6	—	29.6
Other reserves	(g)	—	0.1	0.1	—	—	—
Retained earnings	(g)	(1.6)	9.0	7.4	(6.9)	(0.1)	(7.0)
TOTAL SHAREHOLDERS' EQUITY		28.0	9.1	37.1	22.7	(0.1)	22.6

Notes to the Financial Statements

For the 52 weeks ended 6 January 2006

29. Reconciliation of net assets and profit under UK GAAP to IFRS continued

Explanation of reconciling items between UK GAAP and IFRS

a) Goodwill

Impact on profit and loss account

	Group 53 weeks to 7 January 2005 £m
Non-amortisation of goodwill	9.2

Impact on balance sheets

	Group	
	7 January 2005 £m	4 January 2004 £m
Increase in goodwill	9.2	—

UK GAAP required goodwill to be written off over its estimated useful life, which the Group determined to be no longer than 20 years. Under IFRS, goodwill is considered to have an indefinite life and is not amortised, but is subject to annual impairment tests. This adjustment reverses the goodwill amortisation and increases profit before tax for the 53 weeks ended 7 January 2005 by £9.2m. The carrying value of the goodwill in the balance sheet is correspondingly increased.

b) Software classification

Computer software that had been included as tangible fixed assets under UK GAAP is included within intangible assets under IFRS.

c) Prepayments

Prepayments recoverable in more than one year classified as current assets due within one year under UK GAAP have been reclassified as non-current assets.

d) Financial instruments

Impact on profit and loss account

	Group 53 weeks to 7 January 2005 £m
Non-amortisation of interest rate cap and adjustment to fair value – reduction in interest payable	0.2
Adjustment of interest rate swap to fair value – reduction in interest receivable	(0.4)
	(0.2)

29. Reconciliation of net assets and profit under UK GAAP to IFRS continued**d) Financial instruments continued**

Impact on balance sheets

	Group		Company	
	7 January 2005 £m	4 January 2004 £m	7 January 2005 £m	4 January 2004 £m
Adjustment of interest rate cap to fair value	(0.3)	(0.5)	(0.3)	(0.5)
Adjustment of interest rate swap to fair value	0.2	0.6	0.2	0.6
	(0.1)	0.1	(0.1)	0.1

All derivative financial instruments are required to be carried on the balance sheet at fair value. Under IFRS, hedge accounting for derivatives is only allowed where detailed documentation in accordance with IAS 39 is in place. The Group is not able to satisfy these documentation requirements in respect of interest rate swaps and caps entered into as economic hedges, and accordingly the change in fair values of these derivatives is reflected in the profit and loss account. The carrying value of the interest rate cap under UK GAAP at 4 January 2004 was £0.6m being the unamortised part of the cap premium (at cost, £0.9m).

e) Deferred tax

Impact on profit and loss account

	Group 53 weeks to 7 January 2005 £m
Reduction in tax charge, consequential from IFRS changes	(0.1)

Impact on balance sheets

	Group	
	7 January 2005 £m	4 January 2004 £m
Reduction in deferred tax asset, consequential from IFRS changes	(0.2)	(0.1)

Deferred tax charges and balances have moved as a consequence of changes arising from the adoption of IFRS.

f) Pensions

Impact on balance sheets

	Group	
	7 January 2005 £m	4 January 2004 £m
Recognition of pension surplus	0.2	0.2

Notes to the Financial Statements

For the 52 weeks ended 6 January 2006

29. Reconciliation of net assets and profit under UK GAAP to IFRS continued

g) Reserves

Impact on balance sheets

	Note	Group		Company	
		7 January 2005 £m	4 January 2004 £m	7 January 2005 £m	4 January 2004 £m
Non-amortisation of goodwill	(a)	9.2	—	—	—
Recognition of pension surplus	(f)	0.2	0.2	—	—
Derivative financial instruments	(d)	(0.1)	0.1	(0.1)	0.1
Increase in deferred tax	(e)	(0.2)	(0.1)	—	—
		9.1	0.2	(0.1)	0.1

h) Revenue

Impact on profit and loss account

	Group 53 Weeks ended 7 January 2005 £m
Application of IAS 39 – reduction in revenue	(410.7)

i) Cost of sales

Impact on profit and loss account

	Group 53 Weeks ended 7 January 2005 £m
Application of IAS 39 – reduction in cost of sales	(410.7)

Both revenue and cost of sales have been reduced by the amount of winnings paid to customers as gaming transactions meet the definition of a gain under IAS 39.

j) Administrative expenses

Impact on profit and loss account

	Group 53 weeks to 7 January 2005 £m
Reduction in goodwill amortisation	(9.2)

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Ian Penrose

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Gary Speakman

Chief Operating Officer and Finance Director

John Barnes

Non-executive Director

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Non-executive Director

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