

30 April 2007

888 Holdings Public Limited Company
("888" or the "Company")

Preliminary Results for the twelve months ended 31 December 2006

888, one of the world's most popular online gaming entertainment companies, announced its preliminary results for the twelve months ended 31 December 2006.

Financial Highlights

- Profit before tax* up 34% to US\$90.5m (2005: US\$67.4m)
- Net Gaming Revenues ("NGR") up 7% to US\$289.9m (2005: US\$271m)
- Net Gaming Revenues from continuing operations** up 28% to US\$157m (2005: US\$123m)
- Operating expenses % of NGR stable at 27%
- Cash at year end US\$114.4m (2005: US\$62.2m) – Group has no debt
- Net cash generated from operating activities of US\$85m (2005: US\$88m)
- Basic EPS*** up 29%% to 24.8c (2005: 19.3c)
- Profit before tax* margin up to 31% (2005: 25%)

Operating Highlights

- Further diversification of product offering via landmark acquisition of the Bingo business from Globalcom Limited in Q1 2007
- Ground-breaking partnership with Rileys, the UK's largest chain of snooker, pool and poker clubs
- Customer experience enhanced by introduction of:
 - Multi-hand poker
 - New casino games including Mobile Casino
 - Blackjack in Poker
 - Backgammon
- Sports betting licence in Italy, applied for, and successfully granted
- Customer acquisition underpinned by further investment in 888 brand; a vital contributor to the company's resilience after the passing of the Unlawful Internet Gambling Enforcement Act (UIGEA) in October 2006

* Excluding share benefit charges of US\$8.8m (2005: US\$17.2m) and reorganisation costs of US\$4.0m (2005: US\$nil)

** Continuing operations relates to all non-US facing operations

***Excluding share benefit charges of US\$8.8m (2005: US\$17.2m)

Commenting, Gigi Levy, CEO of 888 said:

"2006 was a significant year for 888, not least because of the signing of the UIGEA bill in October which meant we had to cease all activity in the US market – 55% of our business. Against this background, I am delighted to report record financial results for 2006. Our continued success is based on the principle of providing our customers a compelling, localised, innovative unique customer experience.

I am also pleased to report that our financial and operational recovery since October 2006 continues with NGR growth of 16% in Q1 2007 compared to Q4 2006. Given this start to 2007, the release of new products, our Bingo acquisition and our clear business strategy we are confident of delivering future growth in 2007."

<ends>

An audio replay of the presentation to analysts will be available from the investor relations section of 888's website (<http://www.888holdingsplc.com>) from late afternoon today.

Contacts and enquiries

888

Gigi Levy Chief Executive Officer
Aviad Kobrine Chief Financial Officer

+350 49800
+350 49800

Bell Pottinger Corporate & Financial
Ann-marie Wilkinson/Nick Lambert/Chris Hamilton

+44 (0) 20 7861 3232

Chairman's Statement

On behalf of the Board of 888 Holdings I am pleased to present the financial results for the year ended 31 December 2006.

The year proved to be a watershed for the online gaming industry following the passing of the Unlawful Internet Gambling Enforcement Act (UIGEA) in the United States on 29 September 2006 as a consequence of which we ceased all activity with US based customers. We were particularly disappointed by this development as we believe in a global regulated online industry. 888 has been at the forefront of self-regulation since its inception. This is with a view to both protecting our customers and ensuring they have a safe environment in which they can enjoy their chosen entertainment experience.

The enactment of this law radically altered the landscape of the online gaming industry and had a significant impact on 888's business performance. However, the broad international reach of the Group's business, especially in Europe, meant that the impact of our withdrawal from the US market left us with a viable cash flow positive business on which we have built significantly.

Management rose to the significant operational challenge this placed on the business and proved that this Group has a robust and flexible business model. The results are testament to all our staff who continue to operate with both professionalism and commitment.

Financial results

Despite our withdrawal from the US in October 2006, we have achieved record turnover of US\$289.9 million, an increase of 7% above 2005, driven by 28% turnover growth from operations outside the US and profit before tax* of US\$90.5 million, an increase of 34% compared to previous year.

Dividends

In line with our policy, and despite the negative effect of the UIGEA, given the strong financial performance, the Board has recommended a final dividend of 8.88¢ per share.

Board changes

There have been a number of changes during the year under review.

In June Gigi Levy joined the Group as COO and Shay Ben-Yitzak, a founding shareholder, stepped down from his executive role to take up a non-executive directorship. On behalf of the Board I would like to thank Shay for his valuable contribution and wish him every success in the future. Gigi brought with him a strong technology and customer service background, having worked in the international communications, broadband cable and satellite industry, and this experience has proved invaluable to the business as it focuses on the customer offering.

Having led the business for six years and taken it through its successful flotation on the London Stock Exchange, John Anderson stepped down as CEO on 31 December 2006 and was succeeded by Gigi Levy. On behalf of the Board I would like to thank John for his valuable contribution and wish him every success in the future. The Group continues to benefit from John's vast experience in his role as a Non-executive Director.

I would like to thank my Board colleagues for their continued support and on your behalf to express my thanks to all the 888 team. They are a fantastic group of people whose dedication and commitment has been outstanding.

Outlook

The Group has worked hard to continue expanding its non-US business, a strategy we have pursued as core to our objectives and we are especially pleased with the results and our performance since ceasing the US business. Our ability to succeed in the new environment is the outcome of a strategy that encompasses vision, new products and enhanced customer experience. We have continued to build our brand and business in new geographic areas, expand

our innovative product offering and extend our multi-channel customer acquisition and retention through our market-leading customer service.

Quarter 1 2007 started well, driven by the rollout of innovative products such as localised Video Slots, Blackjack in Poker and Crazy Blackjack, to name a few. We are confident that these initiatives together with the release of our all new home-grown Backgammon, coupled with the Bingo acquisition, will deliver further growth.

Your Board believes we are well positioned to develop and grow our business in this exciting and expanding space for the foreseeable future.

Richard Kilsby
Chairman

Chief Executive Officer's Review

When I joined 888 as COO in June 2006 I joined one of the world's foremost internet companies, a leader in the online gaming entertainment market, with one of the strongest brands in the industry and my focus was to ensure the continuance and acceleration of the company's spectacular growth.

888, is known for its unique marketing capabilities, its strong global brand, the high quality service and support it provides its customers and the state-of-the-art technology it develops and uses. My challenges for 2006 were mostly related to the refinement of the company's strategy, the need to continue to innovate and introduce additional games and the desire to continue to expand geographically, a long declared strategy of the Group. Everything was set for another record year.

The UIGEA bill was signed into law on October 13 and we ceased all activity in the US market. This was not an easy change to make, losing the majority of our 26 million registered customers at the time and 55% of our revenue could have potentially delivered a lethal blow to the business. However I am pleased to say that we already had the infrastructure and plans in place to ensure our survival.

The impact was immediate, with revenue falling by 55%, new customer acquisition numbers by almost 40% and active customer numbers by 35%. The company's cost structure was inappropriate for such reduced revenue levels, and we had to act swiftly, taking appropriate action including the regrettable but necessary headcount reduction and a refocus of our marketing activity on new markets. We made a bold and conscious decision not to reduce headcount by similar percentages to the revenues we lost. It was – and still is – our belief that growth will only come from an innovative offering and cutting-edge marketing. Thus the number of Research & Development and marketing professionals was hardly changed, ensuring we can continue performing on our declared product and marketing strategy. Current trading suggests that this was the right strategy, which enabled us to remain a profitable and fast growing business.

Our 2006 results, despite the UIGEA setback, prove again the attractiveness of our business model and the resilience of our Group. Altogether, our revenues grew by 7% year on year, and based on our improved operational performance and larger scale, our PBT* grew 34% making 2006 the group's most successful financial year ever. More importantly, our revenue from non-US markets grew by 28%, in line with our strategy to continue reducing exposure to the US market.

* Excluding share benefit charges of US\$8.8 million (2005: US\$17.2 million) and reorganisation costs of US\$4.0 million (2005: US\$nil).

Delivering on our strategy

Our success in 2006 was based on the same strategic principles that made us successful during our 10 years of operation, namely acquiring and retaining customers by delivering a compelling, localised, innovative, unique customer experience while being mindful of the complex regulatory environment that we operate in and the necessary social responsibilities that come with our industry.

To achieve the desired customer experience, we continued our investment in our Enhanced and Innovative Offering – 2006 saw the largest investment we have ever made in Research and Development to date, more than US\$19 million. This resulted in a whole new Casino version – our best-ever online entertainment arena, the introduction of our multi-hand Poker and a significant investment in gaming infrastructure which will be the basis for rapid games introduction in 2007. This infrastructure enabled us to introduce an average of one new game a month in our Casino offering in the last quarter of 2006 as well as Blackjack in Poker and most recently the all new home-grown Backgammon.

2006 was a record year in terms of marketing activity, in which we kept our focus on delivering State of the art Integrated Marketing. We did more than before in every aspect of our marketing activities in 2006; more online marketing campaigns in more countries; more affiliates working with us; more offline campaigns; more promotions and

retention activities with our customers; the first 888 Magazine ('Eight' which has become a huge success); and more sponsored sports events. In 2006 we continued developing our 888.com brand, which became the most recognized online gaming brand in the UK. It is this unique marketing capability which enabled us to turn the business around so quickly when we had to abruptly cease US activities and which will continue to drive our customer acquisition and retention.

A common thread in our activities, we ensured we are Thinking Global while Acting Local. The winning customer experience always has a local flavour to it, and we kept pushing to deliver the most localised experience available. With campaigns in more than 15 languages, Casino software in 11 languages, Poker in 7 languages and customer service available in 11 languages, we continued delivering one of the most localised gaming experiences in the industry.

One of our core capabilities, we kept providing our customers Market-Leading customer service. Taking care of our customers has been one of the cornerstones of our success, and through 2006 we kept delivering a phenomenal Service Level Agreement answering the vast majority of customers' calls and chat requests in less than 18 seconds and responding to e-mails in less than 20 minutes. This is visibly the best customer service in the industry and we constantly receive positive feedback on our service levels from our customers.

As part of our investment in improving our Customer Intimacy, we met more of our customers in 2006, asked a larger sample of them to answer our satisfaction and research surveys and invested even more in our data mining and analytical capabilities. In 2006 we also completed our new Data Warehouse, which is providing a far better insight into our customers' behaviours and needs. This resulted in more personalised promotions to customers in 2006, which assisted in maintaining and increasing customers' lifetime value.

With all the challenges we had to overcome in 2006, it became even more critical than ever to act as a Focused, Efficient and Effective Organisation. We have managed to reduce a considerable part of our cost base throughout the year and completed a quick cost reduction plan following UIGEA without which we would not have been able to secure our margins in 2007. To complete our recovery, it was our proactive Employer of Choice philosophy which enabled us to retain our professional, dedicated and motivated employees in the midst of the storm our industry went through.

Responsible gaming

Responsible gaming has always been at the heart of our activity. As a founding member of eCogra, the self-regulating industry body, we have continuously aimed to set an example when it comes to acting responsibly. 2006 was no different. We continued to restrict hundreds of customers whom we suspected had a gaming problem and direct them to seek help and support; we enabled customers to impose limits on their activities and when appropriate proposed they do so; we offer self-exclusion tools to all customers and continue to utilise all available methods and work with industry experts to detect underage gamblers and prevent them from playing. In 2006 we continued to train our staff to recognize signs of problem gamers and act accordingly; we have further developed our automatic protocols looking for gaming problems in customers' behaviours. We have also recruited an experienced executive (who previously worked at Gamcare) as Director of Responsible Gaming. She acts at the most senior levels in the Company and focuses all of her time on this most important issue.

The regulatory landscape

While the regulatory landscape has always been a key focus for us, this has intensified following UIGEA and other anti-online gaming legislation in various jurisdictions. Managing regulatory compliance is a vital task for an online gaming company, and we continue investing significant effort, both internally and through our network of advisors worldwide, to better understand regulatory developments and ensure appropriate actions are taken. It has always been our belief that there will be a growing regulatory clarity in the coming years, mostly in the form of a regulatory framework in the various markets, and we continue to see this as the most sensible evolution for this highly popular form of online entertainment. Clearly, regulatory developments can have both positive and negative impacts on our business, and when faced with the right opportunities to reduce regulatory risk we would do so. In line with this strategy we applied in 2006 for, and were successfully granted, a Sports Betting licence in Italy. We will keep monitoring regulatory changes throughout 2007 and take appropriate steps to reduce risk.

Our employees

I cannot overstate the importance of our employees to our success, especially in light of UIGEA and the changes we had to implement immediately. Had it not been for our professional, motivated and committed employees all around the world, we could not have refocused as quickly and effectively as we did. We will continue investing in our employees, developing their skills and ensuring we provide them a professional and challenging working environment keeping 888 one of the best companies to work for world wide. Our success is based on excellent people and we will continue bringing on board and promoting key talent wherever we find it.

Our strategy for 2007 and beyond

While our core strategy remains unchanged, our management team has significantly refined our strategy to meet the new challenges in the newly formed, post-UIGEA market. The new emphasis in our strategy set out below aims to

further enhance our customers' experience, ensuring that we provide our customers the widest variety of relevant games, better and more rewarding opportunities to play and win wherever and whenever they wish.

Unified offering – from different games to a single multi-dimensional gaming environment

In order to provide our customers with a wider selection and a complete entertainment experience, we have decided to move all of our offering into a single software client, using a single wallet which will make all games available to all customers. This is a unique approach in the market, and in coming months our customers will enjoy the ability to play Poker, Casino and Backgammon all from the same software client and wallet. The process has already started with the successful introduction of Blackjack into our Poker offering, which was an instant success. Early in Quarter 2 2007 our customers will be able to access Video Slots, Video Poker and Roulette (comprising a total of 19 new games) and our new Backgammon game in the same software client and later during the year they will be able to access directly all of our additional Casino games. This is a unique offering which is more exciting than what is currently available in the market as it makes it a lot easier for customers to enjoy their deposited funds in a large variety of games without the need to download different software clients for each game. Coupled with our newly acquired Bingo offering and our anticipated Sports Betting proposition we aim to have the best offering in the market by the end of 2007.

Entertainment focus – from just gaming to additional forms of entertainment

Whilst online gaming remains the core of our offering, to ensure our customers enjoy their membership of 888 even more, we will be adding Video and Audio entertainment to our proposition throughout the year. Following extensive studies of our customers' interest areas and given our ability to personalise our offering, we are confident we can deliver relevant content which will further delight our customers.

Community tools – from individuals playing at the same table to a community of people looking to have fun

We believe that our customers are looking for the best entertainment available online. Growth of social networks in recent years, demonstrates clearly that communication and networking is key in creating a sense of belonging and loyalty. We have always had chat available for customers playing Poker as well as forums, but we are now taking this further so our customers can interact better with each other, use messaging technologies, know when their friends are online and even be able to 'set appointments' to play with these friends. These features which will be available throughout 2007 will ensure that our customers not only enjoy the games but also enjoy being part of the 888 community.

Mobile and TV – from a single platform to multi platform access

As the worlds of the PC, mobile phone and television are converging, our customers want to be able to access their favourite games not only from their computer but also from their mobile phone and television. In 2006 we launched our mobile Casino, which currently features our most popular games on most handsets and enables users to play the same games using the same account and wallet as online. In 2007 we will seek to expand our mobile reach and extend our offering to additional platforms such as television.

More localisation – from localising games to adding local games

While our offering is already localised today, we aim to do even more, and will introduce in 2007 not only further localised versions of our games but also local games which are relevant for target markets. Asian games, South American games and others will be added to our offering to accommodate local gaming preferences in each market. To accelerate the pace of adding new games, we have opened our platform for integration, and will be choosing key partners worldwide to provide games which will operate in our proprietary gaming environment. So while we will be able to integrate new third party games rapidly into our front line we will continue to have a single integrated financial, transactional and back office system.

Strategic partnerships – from just an operator to service provider to virtual operators

Following significant technological investment, the Group has embarked on a new venture, partnering with key brands to deliver specific propositions to target segments. These partnerships will enable the Group to reach new customers rapidly, leveraging the partners' assets and sharing the revenue from these customers. We have already announced our first such partnership, an innovative cooperation with Rileys, the UK's leading chain of 168 Snooker, Pool and Poker clubs. In this partnership, we use our online Poker capabilities to power www.rileyspoker.com. This Poker site is promoted by Rileys in their clubs to their 525,000 customers and externally in new club customer recruitment giving us immediate reach to these new potential customers. We are currently in the final stages of negotiating additional similar partnerships, which will further broaden our potential audience and accelerate our customer recruitment.

New Customers Club – from a 2-tier VIP club to a state of the art Customers Club

2007 will see the launch of The Max, our newly formed loyalty club which will give customers an unparalleled membership experience. With a simple, 4-tier membership level, innovative prizes, quicker points accumulation and lots of surprises, The Max, which will be launched mid year, will aim to be the best membership club in online gaming and the major one to offer points collection from all types of online games into a single account.

As can be seen, we plan to have an exciting year, in which we will continue to deliver on our successful strategy.

Our first acquisition

We recently announced the first acquisition in the history of the Group, in which we acquired the Bingo business and assets from Globalcom Limited*. Bingo is a fast growing segment of online gaming, and we are certain this acquisition will assist us in delivering quick growth. We are constantly looking for additional opportunities to enhance our strong organic growth with selective acquisitions.

Current trading and outlook

We had a good start to 2007 with record turnover in March 2007 for non-US operations with 16% NGR growth in Quarter 1 2007 compared to Quarter 4 2006. During the period 1 March to 21 April 2007 average daily turnover as well as Poker rake plus tournament fees were both 20% higher than during the last week of October 2006, while average daily Poker and Casino active customers were 28% and 11% higher respectively, than the last week of October 2006.

Given this start to 2007, the release of new products, our Bingo acquisition and our clear business strategy, we are confident of delivering future growth in 2007.

Gigi Levy
Chief Executive

Enhanced Business Review

Introduction

888 Holdings plc is one of the world's most popular online gaming entertainment companies. 888 owns and operates various websites including www.888.com, www.Casino-on-Net.com and www.PacificPoker.com which are amongst the most well known online brands. We are the home of online gaming entertainment.

In 2005, 888.com was the proud recipient of Best Online Casino and Best Online Operator of the Year at the e-gaming Awards. 888.com was also voted "Best Online Casino 2005" in the Inside Edge magazine and in 2006 888.com received "Best Online Casino 2006" award at the UK Gambling Awards and the "2006 Casino Operator of the Year" award at the e-gaming Awards.

2006 was a year of change for the Group. Externally the passing of the UIGEA in the United States in October 2006 has had a major impact on the financial performance and share price of the Group. 888 was the first public company to announce its withdrawal from US-facing operations on 2 October 2006 as a result of UIGEA and the new regulatory reality necessitated determined swift action. As a result, the Group underwent an internal restructuring process following a detailed review of its cost base in order to adapt its operations to the new environment. In addition 888 underwent a significant change in operating structure and management focus which will allow it to better align its resources towards the challenge of growing in a more diverse and rapidly changing market.

In accordance with accounting standards and to provide a clear understanding of the Group's continuing operations, the financial results for 2006 and the comparative 2005 period have been segmented into Continuing and Discontinued operations. Discontinued operations represent activities undertaken by the Group that were US customer facing, while Continuing operations are those activities offered to non-US customers. All costs which could not be specifically allocated were attributed to the continuing operations, see also note 2 of the financial statements.

While the financial statements show the consolidated performance all references to financial performance or Key Performance Indicators ("KPIs") throughout this document refer to the Continuing operations unless expressly stated otherwise.

Results – Group Financial summary**

	Year ended 31 December 2006			Year ended 31 December 2005		
	Continuing US\$m	Discontinued US\$m	Total US\$m	Continuing US\$m	Discontinued US\$m	Total US\$m
Net Gaming Revenue						
Casino	88.8	72.0	160.8	85.2	76.0	161.2
Poker	68.2	60.9	129.1	37.8	72.0	109.8
Total Net Gaming Revenue	157.0	132.9	289.9	123.0	148.0	271.0
Operating expenses	49.4	28.1	77.5	43.3	29.7	73.0
Research and development expenses	19.4	0.0	19.4	11.3	0.0	11.3
Selling and marketing expenses	51.0	33.3	84.3	54.9	45.1	100.0
Administrative expenses*	19.8	3.3	23.1	17.0	3.1	20.1
Operating profit*	17.3	68.3	85.6	(3.5)	70.2	66.7
Profit (loss) before tax*	22.2	68.3	90.5	(2.8)	70.2	67.4

* Excluding share benefit charges of US\$8.8 million (2005: US\$17.2 million) and reorganisation cost of US\$4.0 million (2005: US\$nil).

** Rounded.

Results – Group (continuing and discontinued operations)

Revenue

Total Net Gaming Revenue (“NGR”) of the Group in 2006 was up almost 7% at US\$289.9 million (2005: US\$271.0 million) driven by 28% turnover growth from operations outside the US. NGR from the US was down by 10% reflecting the cessation of all real-money games to US customers in October 2006 following UIGEA.

Expenses

Operating expenses increased 6.2% to US\$77.5 million (2005: US\$73.0 million) slightly lower than the NGR percentage growth. This was primarily as a result of expansion of the customer facing employee base and maintaining the overall operating expense ratio of NGR at 27%, despite considerable decline in NGR following the withdrawal of US operations in October 2006.

Research and development expenses increased 71.2% to US\$19.4 million (2005: US\$11.3 million) due to the expansion of our product development, a direct result of our strategic decision to accelerate development and release of our innovative product range.

Marketing expenses fell 15.7% to US\$84.3 million (2005: US\$100.0 million) due to the cessation of our marketing activities to US based customers in October 2006 following the enactment of UIGEA and our tightened control over our marketing activities focusing our efforts on attracting and retaining valuable customers.

Administrative expenses* increased 14.8%** to US\$23.1 million (2005: US\$20.1 million) as a result of an increase of US\$6.7 million in salaries to US\$14.6 million (2005: US\$7.9 million) and higher lobbying expenses partly offset by US\$4.7 million exchange gain (2005: US\$0.4 million exchange loss). The increased salaries reflected the change in management structure required for a quoted company and the payment due to the outgoing Chief Executive Officer under his agreement.

Reorganisation costs

For a number of years the Group sought to minimise its exposure to the US market and as a result of the decision to cease real-money games offered to US customers in October 2006 the Group incurred relatively modest reorganisation costs of only US\$4.0 million (2005: US\$nil). This amount primarily represents the cost of regrettable but necessary redundancies of US facing employees across the Group’s three main operating units in Gibraltar, Antigua and Israel.

Share benefit charges

At the time of our IPO, as part of our commitment to investment in human capital, eligible management and employees received equity awards under the 888 All Employee Share Plan (“Share Plan”) including a grant by the founders of immediately vested shares. These equity grants had no cash effect on the Group, but under the applicable Accounting Standard (IFRS 2) this results in a charge against income calculated on a phased basis as set out in the accounting policies section of the financial statements.

In 2006 the Group awarded shares and options to seven senior executives vesting over the period 14 April 2007 to 14 September 2010 and subject to certain performance related targets being met.

Finance income

With the Group continuing to generate and retain cash surpluses throughout the year net interest income increased to US\$4.9 million (2005: US\$0.7 million).

Profit before tax*

As a result of increased revenues, keeping expenditure under control and better management of resources, profit before tax increased 34% to US\$90.5 million (2005: US\$67.4 million).

Reconciliation of profit before tax

	2006 US\$m	2005 US\$m
Profit before tax	90.5	67.4
Reorganisation costs	(4.0)	0.0
Share benefit charges	(8.8)	(17.2)
Profit before tax after share benefit charges and reorganisation costs	77.6**	50.2

* 2006 excluding share benefit charges of US\$8.8 million (2005: US\$17.2 million) and reorganisation costs of US\$4.0 million (2005: US\$nil).

** Rounded.

Cash flows and balance sheet

In accordance with the Group’s practice, customers are required to deposit funds into their accounts prior to participating in any real-money activity. As a matter of policy the Group keeps sufficient liquid resources to meet the possible withdrawal of all customer balances at any time.

The Group is highly cash generative with a net cash increase in 2006 of US\$52.2 million (2005: US\$21.9 million) after the payment on 31 October of an interim dividend of 4.5¢ per share and a special dividend of 4.0¢ per share totalling US\$28.7 million (aggregate dividend 2005: US\$63.1 million).

Cash position at 2006 year end remained strong at US\$114.4 million (2005: US\$62.2 million) and represented 83.1% of total assets (2005: 71.0%). Out of this amount US\$22.7 million was owed to customers (2005: US\$29.3 million). The Group has no debt.

Results – Continuing operations

The continuing operations demonstrated strong growth in 2006 with NGR up 27.6% to US\$157.0 million (2005: US\$123.0 million) driven mainly by strong growth in our Poker product particularly in the EMEA region. Operating profit* increased after a loss in 2005 of US\$3.5 million to a profit in 2006 of US\$17.3 million. The table set out below includes a summary of the continuing operations.

	2006 US\$m	2005 US\$m
Net Gaming Revenue		
Poker	68.2	37.8
Casino	88.8	85.2
Total	157.0	123.0
Operating profit (loss)*	17.3	(3.5)
Profit (loss) before tax*	22.2	(2.8)

* 2006 excluding share benefit charges of US\$8.8 million (2005: US\$17.2 million).

Poker

The Poker operations delivered the strongest growth in 2006 with NGR increasing by 81% to US\$68.2 million (2005: US\$37.8 million). The progressive development of our Poker product in combination with strong customer recruitment are the major factors contributing to the success of our Poker offering. The Poker segment result, after directly attributable costs but before allocation of overheads, increased by 196% to US\$41.4 million (2005: US\$14.0 million) reflecting the volume driven nature of this business. Poker now contributes 43% (2005: 31%) of the Group's NGR.

Casino

Growth in our Casino business was moderate with NGR up by 4% to US\$88.8 million (2005: US\$85.2 million). The introduction of Blackjack into Poker at the end of 2006 was an instant success and the addition of further Casino games into Poker and the migration into our unified platform planned for 2007 are expected to accelerate Casino growth. Nonetheless the Casino segment result, after directly attributable costs but before allocation of overheads, increased by 26% from US\$41.2 million to US\$52.1 million as the focus of the marketing expenditure was tightened.

Expenses

Operating expenses increased 14.1% to US\$49.4 million (2005: US\$43.3 million) primarily as a result of the increase in customer facing staff and communication costs which offset the reduction in the cost of chargebacks. The ratio of operating expenses to NGR reduced to 31.5% (2005: 35.2%).

Research and Development expenses increased 71.2% to US\$19.4 million (2005: US\$11.3 million) due to the expansion of our product development, a direct result of our decision to accelerate development and the release of our innovative product range.

Marketing expenses fell 7.1% to US\$51.0 million (2005: US\$54.9 million) as we focused our marketing expenditure on attracting and retaining valuable customers. The ratio of marketing expenses to NGR reduced to 32.5% (2005: 44.7%).

Administrative expenses* increased 16.8% to US\$19.8 million (2005: US\$17.0 million) as a result of an increase of US\$6.5 million in salaries to US\$13.9 million (2005: US\$7.3 million) offset by US\$4.7 million exchange gain (2005: US\$0.4 million exchange loss). Increased salaries reflect the change in management structure required for a fully listed quoted company and payment due to the outgoing Chief Executive Officer under his agreement.

The ratio of administrative expenses* to NGR reduced to 12.6% (2005: 13.8%).

Profit before tax*

After finance income of US\$4.9 million (2005: US\$0.7 million) profit before tax grew from a loss of US\$2.8 million in 2005 to a profit of US\$22.2 million in 2006.

* 2006 excluding share benefit charges of US\$8.8 million (2005: US\$17.2 million).

Our strategy

We aim to achieve profitable growth through the acquisition and retention of valuable customers by providing our customers with a differentiated, intentional customer experience. Our goal is to become the world leading online entertainment gaming company and exceed our pre-US shutdown annual revenue and profit. To do this we must give our best customers the right customer experience. The main cornerstones of our strategy are summarised below.

- Thinking global while acting local: Providing a consistent, first class, relevant experience to our customers
- Enhanced and innovative offering: Offering a full range of entertainment options to our customers
- State of the art integrated marketing: Coordinating our marketing channels to provide a strong relevant marketing message using an integrated multi-channel approach to maximise the acquisition and retention of valuable customers
- Customer intimacy: Using our customer knowledge to maximise their customer experience while prioritising our resource allocation to them
- Market leading customer service: To provide the most positive customer interface possible
- Focused, efficient and effective organisation: To remain competitive we must run the operation efficiently and maintain focus on our particular plans and goals
- Employer of choice: Our aim is to be the employer of choice in the market in which we operate.

Review of 2006

In 2006 the Group underwent two fundamental changes. The impact of UIGEA on the industry, competitive landscape and our business environment are well documented. The impact on our business was less severe than some of our competitors as in previous years one of our main strategic objectives had been to reduce our reliance on the US market and diversify into other geographical markets. We will continue to build on the strength of our brand and utilise our unique experience and know-how, gained over years of operating in non-US markets, to accelerate our geographical expansion and localisation focus.

The other fundamental change has been our management re-focus designed to utilise our resources more efficiently in face of the changing business environment. The recruitment of several key senior management team members signified a shift in our execution capabilities necessitated by the changes we faced. This in turn led to a change in our management and regional operational focus which has allowed us to withstand the adverse effect of UIGEA. The key aspects of this are set out below.

Organisation structure

The new organisation structure is aimed at re-focusing the core elements of our organisation; marketing, R&D, product offering and support, but at the same time improving interfaces and communication between them.

Marketing and CRM is now focused on a regional basis with the goal of recruiting the customer segment of our choice and providing the smoothest route from initial brand awareness to playing real-money games.

R&D is focused on developing and integrating our gaming and back office systems to ensure a shorter time to market of our innovative offering.

Product offering is focused on ensuring that we offer the best set of games and the widest selection of payment methods available in all locations.

The final element is our support function that is tasked with ensuring that we provide world class customer support, maintaining close, intimate contact with our customers and thereby ensuring we leverage and deliver through all core functions.

Player growth

Attracting valuable new customers is a key driver of our business growth. During the year our continuing operations recruited more than 260,000 new First Time Depositors ("FTDs") from more than 920,000 new real play registrations despite the normal seasonal slowdown during the summer months which this year suffered particularly from the World Cup effect. Total customer registrations increased by 34.7% in 2006.

Player retention

The ability to retain customers is as an important factor in the success of our business as is the ability to recruit them in the first place. High churn rates can mean that the cost of recruiting new customers outweighs their value, so recruiting and retaining customers with high lifetime values is a key component to profitability.

We measure retention by tracking the revenue generated by groups of customers pooled together according to the quarter they joined, over successive quarters. Poker exhibited steady performance for the Poker product during the last two years.

A considerable portion of our revenue in each given period is derived by dedicated customers who joined more than a year ago representing the monetary "stickiness" of our revenue stream.

Another method to measure retention is by comparing the level of revenue received from customers active over a specific period, over the following months.

We compare the rake and tournament fees received from Poker customers active in January 2005 and January 2006 over the following 12 months. As can be seen from the two sample populations, on average customers tend to play more during the first few months after joining with spend profile decaying over time. In addition, revenue is generally higher for 2006 customers until the last three months of the year when the loss of American customers reduced liquidity on higher value tables with the result that customers contributed 46% of their January levels in December 2006 compared with 59% for the 2005 customers in December 2005. Nevertheless overall NGR from our Poker offering rose 17% in Quarter 4 2006 compared to Quarter 3 2006 due to successful customer acquisition efforts coupled with increased yield per customer as described in the KPI analysis on the opposite page.

Similarly the Casino revenue retention compares the net deposits (a close proxy to NGR) received from Casino customers active in January 2005 and January 2006 over the following 12 months. As can be seen from the two sample populations the revenue is generally higher for 2006 customers than 2005. However, by year end 2006 customers contribute 38% of their January levels in December compared with 44% for the 2005 customers.

KPIs – Continuing operations

The performance of the business is reviewed on the basis of a number of key determinants. These are analysed below on a quarterly basis for the last two years for the Casino and Poker operations and for the business in total.

Casino

Year Quarter	2005				2006			
	1	2	3	4	1	2	3	4
NGR ('000)	20,227	21,856	21,647	21,498	21,496	22,531	22,646	22,088
Active customers	50,565	56,812	56,553	62,933	54,053	48,425	46,444	41,307
NGR per active customer	400	385	383	342	398	465	488	535

The Casino has delivered a steadily increasing NGR per quarterly active customer in 2006 reaching US\$535 in Quarter 4 2006. This follows the developments of the offering with greater localisation and the rollout of new games, particularly the higher margin Video Slots introduced in early 2006, and the migration of customers to these games. Casino NGR increased further in Quarter 1 2007 with the introduction of Blackjack into Poker. This growth has compensated for, on an NGR basis, a decline in active customer levels after strong growth in 2005.

Nevertheless the Casino offering has seen a steady annual growth in NGR with a similar seasonal pattern of quarter by quarter movement within each year.

Poker

Year Quarter	2005				2006			
	1	2	3	4	1	2	3	4
NGR ('000)	5,254	7,808	10,166	14,527	17,857	16,322	15,686	18,374
Active customers	61,710	92,489	105,714	119,116	134,710	122,087	132,995	147,805
NGR per active customer	85	84	96	122	133	134	118	124

Poker has seen constant strong growth across all KPIs since Quarter 1 2005 demonstrating the value of the enhancements made to the product over the period. NGR per quarterly active customer has once again resumed its climb aided by the growth in liquidity from the continuing increase in active customers. Customer growth remained strong despite the seasonal pattern and the competition from the World Cup.

The combination of these two factors have resulted in impressive NGR growth over the period which has continued in Quarter 1 2007.

Total

Year Quarter	2005				2006			
	1	2	3	4	1	2	3	4
NGR ('000)	25,481	29,664	31,813	36,025	39,353	38,853	38,332	40,463
Active customers	112,275	149,301	162,267	182,049	188,763	170,512	179,439	189,112
NGR per active customer	227	199	196	198	208	228	214	214

The combined KPIs reveal a healthy increase in NGR over the period which has continued with 16% growth in Quarter 1 2007. Active customer growth has been steady, coupled with a stable total NGR per active customer.

Our products

Casino

Founded in 1997, Casino on Net, our major Casino brand, has consistently been ranked as the leading online Casino brand in the world. The Casino continues to generate substantial business, and represented more than 55% of the Group's NGR in 2006. In our non-US business from Quarter 1 2005 to Quarter 4 2006 we experienced 9% NGR growth.

2006 has seen consistent development of our Casino offering. January 2006 saw a major update with new games, added promotional features and a more contemporary design. The Video Slot offering gives a unique playing experience and has proved a hugely popular feature with a growth rate of 227% from January to December for non-US customers. To capitalise on this we aim to add one new slot machine a month and with its greater margins we are actively promoting the feature across our customer base and across languages.

The integration of Blackjack into our Poker client in December 2006 was an overnight success. Poker customers can now play our exciting and innovative Blackjack while enjoying our successful Poker games. With 18% of 888's Poker customers in the first two months of 2007 playing Blackjack, this enhancement of our offering has proven to be both popular and profitable, supporting our plans to integrate more Casino games into our Poker client.

As part of our localisation strategy, we will be releasing our new Casino version in further languages. In October 2006, the new French version was released and has already shown significant increase in revenue and first time depositors compared to the previous version. In January 2007, the new version was released in German and Spanish and will soon be available in 12 languages in total.

Our commitment to provided our diverse membership base with unique games, features and more convenient payment methods to support local markets, will further our international growth and our plan is to add more languages in 2007.

Poker

2006 has been in many ways a transition year for our Poker brand, Pacific Poker. The growth phase from a new, young and raw Poker room into a mature, competitive and influential Poker room has been achieved by addressing previous gaps in our offering.

In January 2006 the Jackpot features "Bad Beat" and "Royal Jackpot", were introduced and have created additional activity and excitement. Multi-table, the ability to play at more than one table at the same time, was introduced in March 2006, and was probably the most influential positive product upgrade of the year. 27% of the customers at any given time are using this feature, playing in two or more ring games and/or tournaments. This feature aids retention of our more experienced customers and obviously increases liquidity and profitability.

In Quarter 3, in an effort to increase our growing global reach and to connect between big offline tournaments and our online experience, we created a section dedicated to sending our customers to exciting offline tournaments around the world; customers can find online qualifying tournaments to the WSOP in Las Vegas, Aussie Millions in Melbourne, the European Poker Tour and World Poker Tour tournaments among others.

In October, following UIGEA and feedback from our customers, a major effort was made to revamp all our tournaments; sit and go and multi-table tournaments, reviewing buy-in amounts, fees, playing times, and guaranteed amounts. Initial results suggest this has had a positive effect, creating a more exciting environment for customers and increasing the appeal of our tournaments to our customers.

December marked a big step in our quest to become a one stop shop for gaming by the addition of Blackjack to the Poker client, generating significant interest from our customers and adding NGR by complementing the Poker product.

As one of the market leaders, we cannot rest on our laurels and we plan to continue our progress in two directions; improving our Poker offering and continuing the progress towards a one stop entertainment shop. 2007 will see the introduction of further uplifts, enhancements, updates and new games.

Bingo

Since the year end we have announced the acquisition of our online Bingo business from Globalcom Limited. The Bingo business operates its own leading network of 45 online Bingo sites or "skins" including Bingoballroom.com, UK-Bingo.net, Bingofabulous.com and Twofatladies.com. In addition it provides Bingo solutions to business partners operating their own networks and other third party sites. This acquisition is a landmark step forward in delivering our strategy of a one stop shop – providing our customers with all of their online gaming needs. This is already a well established market leader, highly cash generative and profitable which uses its own proven and scalable software.

Bingo will be a valuable addition to our entertainment services, and we expect to be able to provide excellent cross-selling opportunities for customers worldwide. This is a great acquisition which is expected to be earnings enhancing for us in the current financial year. It also supports our newly established partnership approach, as the Bingo business today provides services to many licensees and skins.

Sports licence – Italy

In December 2006 the Group was awarded one of the Italian Sports Betting licences issued by the Italian Government. This gives us the right to provide online betting facilities to the Italian market. The Group is currently negotiating for the provision of odds setting facilities from the approved list of vendors and intends to launch its full online Sports Betting service in Italy later this year. The licence process also represents a step forward in relation to the e-gaming industries' relationship with the jurisdictions in which they operate.

Sportsbook

The Group continues to investigate opportunities to add a Sportsbook proposition to its offering to fulfil our one stop shop strategy. While this process continues we will continue to offer a sports betting option through our Betmate betting exchange.

Customer service

Excellent customer service continues to be a central tenet of the Company's proposition. Our dedicated contact centres in Gibraltar and Antigua offer first class customer support 24/7 to our customers around the world. We offer support in 11 languages. During the year we further upgraded our call routing and call monitoring systems in Antigua to ensure the consistency of our global service.

The termination of real-money games to customers in the US resulted in an adjustment to staff numbers in the contact centres but we are committed to maintaining the high standards of service previously enjoyed by our customers. During the year the following performance was attained by the Gibraltar contact centre:

Casino

- 98.9% of all phone calls in English answered within, on average, 18 seconds.
- 81.4% of all e-mails received in English replied to within, on average 20 minutes.

Poker

- 98.6% of all phone calls in English answered within, on average, 16 seconds.
- 76.5% of all e-mails received in English replied to within, on average 20 minutes.

The ongoing dialogue with customers is maintained by a dedicated Customer Relationship Management team whose aim is to enrich the customer experience. The Group has developed sophisticated data mining tools that assist in identifying and predicting customer behaviour, based on data collected since the Group was founded, which allows the Group to offer its customers tailor made incentives to suit their profile and thus maximise their lifetime values. The level of service given to individual customers is also differentiated, with our best customers receiving a more personalised service.

Payments and Risk Management

In 2006 customers were offered a total of 21 different depositing and 10 different withdrawal methods. When customers enter 888.com they are offered a range of payment options tailored to suit their local market based on their physical location and from which they can choose their preferred method. The aim is to offer a wide selection of secure payment methods in each location so as not to restrict the ease of customer deposit or withdrawal.

Credit cards and debit cards are the most popular method of payment representing 86.7% of total deposits in 2006 (2005: 87.7%) followed by online wallets representing 11.7% (2005: 11.1%).

Deposits and withdrawals are carefully monitored by our in-house Fraud and Payment Risk Management department. This department has a depth of experience in fraud prevention from many years' operation and has integrated their internally developed prevention and verification procedures with conventional commercially available measures.

Marketing

We have created a world leading brand through multi-channel integrated marketing across all media channels worldwide. Our vision for marketing is:

- to find every person worldwide, who wants to play games and to bring them to the 888 lobby to play;
- to let them play more games, to play more often and to play more of the time; and
- in a safe, responsible and trustworthy environment.

The Group leads the industry in online marketing including search engine optimisation, advertising banners, pop-ups on websites and portals and the new tools of viral advertising, RSS and others. The Group is constantly copied as it pioneers the use of all media including traditional advertising, direct mail, sponsorships and public relations activities. Indirectly the Group also partners with affiliate sites to generate traffic and drive new customers to the site by paying a commission or revenue share to the affiliate. Finally, effective use of CRM tools, loyalty and VIP programmes allow a personalised brand experience for new and existing customers.

Employees

At the year end the Group had 736 employees (2005: 886) at the following locations; Gibraltar, Israel, Antigua, London.

The UIGEA had a dramatic effect on our financial performance. However, due to our diversified customer base and internal structure the readjustment to compensate for this lost revenue was not too significant. It did, however, require an adjustment to those US facing parts of the operation and redundancies were unfortunate but inevitable. Overall headcount was reduced by 210 with the largest percentage losses being in the Antigua and Gibraltar support centres.

Dividend

The Group's stated policy at the time of IPO was that it intended to pay dividends to holders of Ordinary Shares and depositary interests representing at least 50% of annual profit. On 31 October 2006 the Group paid an interim dividend of 4.5¢ per share and also a special dividend of 4.0¢ per share, in all totalling US\$28.7 million. Given the Group's strong financial performance, and despite the negative effect of the UIGEA, the Board recommends a final dividend of 8.88¢ per share.

Responsible gaming

The Group is dedicated and committed to a policy of social responsibility. The Group has taken a proactive role in setting, maintaining and improving high standards of protection for its customers. This is essential for shaping future regulation through industry best practice, improving communications with customers and eradicating the incidence of problematic and underage gambling. The Group recognises that while most people gamble for entertainment and even though studies suggest that only a very small percentage of the adult population encounters compulsive gambling problems the problem does exist. We take this matter seriously and have accordingly implemented a number of measures to address this matter.

The Group has sought to take the lead in setting industry standards for self regulation to ensure customer protection, fair gaming, and responsible conduct are met. It was one of the founding members of eCOGRA (e-Commerce Online Gaming Regulation and Assurance), an independent body, which has developed a rigorous series of self-regulatory guidelines. These guidelines have been adopted by our Casino and Poker businesses and they are subject to independent review to ensure compliance with these guidelines. The Group has been awarded a seal of approval by eCOGRA for the Casino and Poker businesses following examination of its procedures and controls. The Group is also an active participant in the Interactive Gaming Council and has adopted their Code of Conduct which requires fairness, honesty and integrity in members' operating procedures.

John Anderson, while CEO, was a key driver of industry self-regulation and is a board member of the IGC and a founder of eCOGRA.

The Group does not rely solely on external certification and continues to update its policies and practices to ensure a safe environment is provided to its customers. The Group has developed, and continues to update, its procedures to address underage and compulsive gaming. The Group's contact centre staff receive training on a regular basis on all issues of social responsibility and problem gambling. The Group enables customers to set their own stringent deposit limits and upon request to self exclude themselves should they feel the need to. In order to protect minors, verification systems are used wherever available to verify and identify the age and identity of our customer before they are able to play for real money. In Quarter 3 2006 the Group appointed a dedicated Director of Responsible Gaming, whose role is to manage the internal and external responsible gaming policy. She brings considerable relevant experience to the Group including working at Gamcare.

The Group has recently finalised its Gamcare audit and will soon be receiving the Gamcare certificate. Gamcare is a UK recognised charity which has a commitment to promote responsible attitudes to gambling and to work for the provision of proper care for those who are vulnerable. Gamcare with its pro-responsible stance maintains a dialogue with all sectors of the gambling industry, including regulators and governments.

In addition, the Group has also added the GamAid button to the site to provide information and support for those customers who feel that their gambling habit is a matter of concern. The "GamAid Safety Net" is accessed through a link from the 888.com home page and also the responsible gambling page. The GamAid link supplies core services to the customers; one to one live online advice, an e-mail advice service, a full support database (which includes a directory for local services in 13 countries including the UK) and a self help information section where the problem gambler can educate and assist themselves.

In 2006 the Group formalised its Corporate Social Responsibility programme which replaces the charitable donations previously made by the individual subsidiary companies. Through this global scheme it provides the means to encourage employees to become actively involved in their local community. The new programme's success will rely on the initiative, involvement, skills and knowledge of our employees. During 2007 the Group aims to develop programmes with a broader global reach. The aim is also to judge results not just by the input but also by outcomes: the difference the Group makes to the world of which it is a part.

Principal risks

The Group operates in a new and dynamic business environment. In addition to the day to day commercial risks faced by most enterprises the online gaming industry presents particular risks of which regulatory and compliance risks are highlighted in the review below.

Regulatory and Compliance Review

The regulatory framework of online gaming in different countries around the world remains as dynamic and rapidly evolving as ever. While some jurisdictions have moved to curtail the activities of online gaming sites, others are currently contemplating liberalisation and regulation of the industry. The Board notes that there are significant risks, unique to the online gaming industry, including from past activity in the US where customers of 888 generated in 2006 46% of its NGR. The Board remains committed to monitoring closely and addressing regulatory changes as they occur, and to fostering, so far as possible, the trend towards liberalisation and regulation of online gaming throughout the world.

888 is licensed and regulated in Gibraltar. In December 2005, the Government of Gibraltar enacted a new Gambling Act. The Act introduces a tailor-made regime for the regulation of remote gaming. 888 has actively supported the introduction of such legislation and the Board looks forward to its continued implementation in the coming months, which will include the appointment of a new regulator.

In the US, UIGEA added a new section to the United States Code making it illegal for anyone engaging in the business of betting or wagering to knowingly accept any credit, electronic funds transfer, check, draft etc. in connection with the participation of another person in unlawful Internet gaming. In essence, the bill prohibits online gambling operators from receiving the proceeds of financial transactions in connection with Internet gaming if the gaming is illegal in the state where the bettor is located. In addition, the United States Secretary of Treasury and Federal Reserve are directed under UIGEA to promulgate regulations which will require financial institutions to block transactions in connection with Internet gaming. In October 2006 the Group stopped taking bets from US customers.

It was recently found by the World Trade Organisation that the US legislative position with respect to Internet gambling violates US trade commitments. The effect of this ruling, and whether any further action will be taken, is at this current time unclear.

The EU Commission is challenging the online gambling regulatory regime of various European states, as the Commission holds that these regimes might infringe the enshrined freedom to provide services and freedom of establishment. This effort is reflected in, inter alia, the infringement proceedings initiated against several EU States. While these proceedings may, in the end, cause the European States to liberalise their gambling markets, it should be noted that they could last for a very long time before (if at all) resolutions or judgements are reached.

Recently, the European Court of Justice issued its ruling in the Placanica case, involving criminal proceedings initiated against agents of Stanley International Betting placed in Italy. The court, although not calling for a liberalisation of the European gambling market, placed heavier burdens on the European states if they maintain their restrictive policies toward online gambling. It remains to be seen what impact this judgement will have.

In Italy, the Group received a Sports Betting licence, which allows it to offer Sports Betting services (supervised by the State Monopoly Authority). In France, during March 2007, 888's Non-executive Director and former Chief Executive Officer, John Anderson, attended an interview with the French authorities. 888 is in consultation with its legal advisers with regards to this matter and closely monitors the situation for any developments.

In Israel, law enforcement authorities have raided the offices of several Internet portals and arrested several individuals on the suspicion that they had advertised online gaming sites in Israel, in contravention of the Israeli Penal Law. The Group does not allow Israelis to wager on its websites and has systems to prevent them doing so. 888 has been advised that since it does not facilitate, offer or provide gaming activities prohibited under the Penal Law to Israeli residents, the Penal Law will not be applicable to the Group since no offence is committed wholly or in part within Israeli territory.

The Board continues to monitor these developments closely and is alert to changes as they may occur in areas where the Group operates.

The Group also has potential risk relating to:

Taxation

The Group benefits from favourable fiscal arrangements in the jurisdictions in which it operates without which its results would be adversely affected. All gaming activities are based in Gibraltar where the Group currently benefits from a tax exempt status. The tax exempt status is due to be removed in 2010 when the Government of Gibraltar intends to introduce a fiscal regime that complies with EU requirements. The replacement regime is still to be unveiled although the Gibraltar Government has pledged its commitment to maintain fiscal competitiveness. The Group is required to pay a gaming duty currently set at 1% of the gaming yield with an annual maximum cap of £425,000. The Group's subsidiary in Israel, Random Logic Limited, and the Israeli branch of Intersafe Global Limited have each entered into separate transfer pricing agreements on an arm's length basis with the Israeli Income Tax Commissioner. The arrangements for Random Logic Limited are effective until 2010 while the position for the Intersafe Global Limited branch after 2007 has yet to be agreed.

The operation in Antigua also benefits from a low tax regime and the current scale of the operation there mitigates against a significant exposure to any change.

2007 Plans

This year will see full implementation of our strategy which will provide the infrastructure for future growth. The Group will continue to expand its innovative product offering, platforms, diversify its geographical footprint and localisation, and extend its multi-channel customer acquisition campaigns including by striking additional strategic alliances with business partners. Finally, we will continue to offer the same, excellent, customer service as we always have.

Our offering

Poker – our Poker offering has already benefited from a further uplift released at the end of March 2007 with enhanced graphics and significantly improved game play features. We have also introduced additional Casino games as well as our Backgammon game into the Poker environment.

Casino – in Quarter 1 2007 the Casino offering has been updated with two new Video Slots and the introduction of Crazy Blackjack featuring side bets and a special jackpot. In addition, our Casino product underwent additional localisation with the release of the new Casino-on-Net in four additional languages. Future upgrades in 2007 will include new languages, more Video Slots and new Casino games.

Backgammon – 888's Backgammon game is being launched in Quarter 2 2007 and will be available to all customers, initially from the Poker client. We believe that Backgammon will become an important anchor in our P2P games offering.

Bingo – following the aforementioned acquisition of the Bingo assets of Globalcom Limited, the Group will be able to immediately launch an 888 Bingo brand in the second half of the year.

Sports book – the Group will be adding a Sports Betting proposition to its customers in 2007.

Unified offering – to enhance the customer entertainment experience, we will be moving all our offerings into a single software client making all the games available in one location. This process has already started with the successful introduction of Blackjack into Poker and customers will soon be able to access all our Casino games and our new Backgammon offering in the same software client. Additional products (Bingo and Sports Betting) will be integrated into the client later on to create a full one stop shop.

New platforms – in February 2006, the Group successfully launched its mobile Casino, offering customers easy, secure, and entertaining access to three of our most popular Casino games; Blackjack, Roulette, and Slots all available in fun or real-money play. The mobile software is compatible with over 340 models representing approximately 85% of the European market. In 2007 we will seek to expand our mobile reach and extend our offering to additional platforms such as television.

New entertainment and community features and tools – We will be adding video and audio entertainment to our proposition throughout the year, with the specific content selected based on studies of our customers' interest areas conducted in 2006. We will also be creating an 888 virtual community to allow greater interaction between customers to enhance the entertainment experience.

Our local focus

In 2007 we will aim to continue investing in localising our offering, not only by introducing localised versions of our offerings but also by adding games which are relevant to that specific target market.

While we will push to grow in various markets worldwide, some markets will get special attention in 2007. One such market would be Italy, where we plan to leverage our recently obtained Italian Sports Betting licence to generate rapid growth.

Adding new payment methods in each country is a key factor in the ability to expand geographically. In 2007, the Group will be performing the first phase of updating its back office payments system. This upgrade would increase ease of use for customers, and will significantly speed up the integration of new payment methods into our offering, ensuring better penetration to new markets.

Our integrated marketing

The Group plans to continue investing in its brand and use integrated marketing campaigns to acquire new customers. In addition, in 2007 we will commence partnering with key brands to deliver specific online gaming propositions to target segments. These partnerships will enable us to reach new customers rapidly through a "white label", leveraging the partners' assets and sharing the revenues. In February, the Group announced a pioneering cooperation agreement with the owner of Rileys, the UK's leading chain of Snooker and Pool clubs. 888.com will power and support a www.rileyspoker.com website which will be promoted by Rileys to their members. This deal provides the blueprint for future online expansion via business partnerships with a carefully selected set of capable partners. We expect to reach agreement on a few similar additional partnership deals in 2007.

A further key part of our 2007 marketing plan includes The Max, our state of the art Members Club, which will give customers an improved membership experience. The club will have simple, "airline-like" 4-tier membership levels, innovative tangible prizes, quicker points accumulation to the higher-tier members and many additional features important to our customers. The Max will be soft-launched mid year.

Effective and efficient organisation

In March 2007 the Group's operation in Israel moved from the two central Tel Aviv locations it operated from to new offices located near Tel Aviv. The new offices provide a significant upgrade and should increase the integration between the various units of the Company and ensure better coordination by improving ease of communication.

Consolidated Income Statement for the year ended 31 December 2006

		Year ended 31 December 2006	Year ended 31 December 2005
	Note	US\$'000	US\$'000
Continuing operations			
Net Gaming Revenue	3	157,000	122,982
Operating expenses		49,448	43,308
Research and development expenses		19,381	11,318
Selling and marketing expenses		51,037	54,920
Administrative expenses	4	28,653	34,208
Operating profit (loss) before share benefit charges		17,310	(3,538)
Charges in respect of shares granted to employees on IPO		–	15,087
Charges in respect of share and option awards		8,829	2,147
Total share benefit charges		8,829	17,234
Operating profit (loss)	5	8,481	(20,772)
Finance income		4,883	735
Profit (loss) before tax		13,364	(20,037)
Taxation	6	3,117	2,136
Profit (loss) from continuing operations		10,247	(22,173)
Profit from discontinued operations	21	64,254	70,188
Profit after tax for the year attributable to equity holders of parent		74,501	48,015
Earnings per share	7		
Basic		3.0¢	(6.6)¢
Diluted		3.0¢	(6.6)¢
Discontinued operations	21f		
Basic		19.1¢	20.8¢
Diluted		18.8¢	20.8¢
Total	7		
Basic		22.1¢	14.2¢
Diluted		21.8¢	14.2¢

Consolidated Balance Sheet at 31 December 2006

		31 December 2006	31 December 2005
	Note	US\$'000	US\$'000
Assets			
Non-current assets			
Intangible assets	9	–	–
Property, plant and equipment	10	13,033	8,341
Deferred taxes	11	546	361
		<u>13,579</u>	<u>8,702</u>
Current assets			
Cash and cash equivalents	12	114,356	62,202
Trade and other receivables	13	9,669	15,013
Amounts due from related parties	18	–	1,649
		<u>124,025</u>	<u>78,864</u>
Total assets		<u>137,604</u>	<u>87,566</u>
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	14	3,073	3,068
Share benefit reserve		9,332	2,147
Retained earnings		74,597	27,115
Total equity attributable to equity holders of the parent		<u>87,002</u>	<u>32,330</u>
Liabilities			
Current liabilities			
Trade and other payables	15	27,931	25,593
Member deposits		22,671	29,325
Amounts due to related parties	18	–	318
Total liabilities		<u>50,602</u>	<u>55,236</u>
Total equity and liabilities		<u>137,604</u>	<u>87,566</u>

Consolidated Statement of Changes in Equity for the year ended 31 December 2006

	Share capital US\$'000	Share benefit reserve US\$'000	Accumulated profit US\$'000	Total US\$'000
Balance at 1 January 2005	3,066	–	27,113	30,179
Profit for the year	–	–	48,015	48,015
Dividend paid	–	–	(63,100)	(63,100)
Redemption of preference share capital	(1)	–	–	(1)
Share benefit charge	–	17,234	–	17,234
Transfer of shares granted on IPO	–	(15,087)	15,087	–
Redenomination translation effect	3	–	–	3
Balance at 1 January 2006	3,068	2,147	27,115	32,330
Profit for the year	–	–	74,501	74,501
Dividend paid	–	–	(28,658)	(28,658)
Issue of shares	5	(5)	–	–
Lapsed share benefit charge	–	(1,639)	1,639	–
Share benefit charge	–	8,829	–	8,829
Balance at 31 December 2006	3,073	9,332	74,597	87,002

Consolidated Statement of Cash Flows for the year ended 31 December 2006

	Year ended 31 December 2006 US\$'000	Year ended 31 December 2006 US\$'000	Year ended 31 December 2005 US\$'000	Year ended 31 December 2005 US\$'000
Cash flows from operating activities				
Profit before tax	77,618		50,151	
Adjustments for				
Depreciation	3,801		2,700	
Loss on sale of property, plant and equipment	29		32	
Amortisation	–		20	
Impairment	–		832	
Translation effect of redenomination of share capital	–		3	
Interest received	(4,879)		(683)	
Share benefit charges	8,829		17,234	
	85,398		70,289	
Decrease in trade receivables	6,346		579	
Decrease (increase) in related party balances	1,331		(638)	
(Increase) decrease in other accounts receivable	(1,002)		142	
(Decrease) increase in trade payables	(1,439)		1,177	
(Decrease) increase in member deposits	(6,654)		10,184	
Increase in other accounts payable	3,527		9,680	
Cash generated from operations	87,507		91,413	
Tax paid	(3,052)		(3,160)	
Net cash generated from operating activities		84,455		88,253
Cash flows from investing activities				
Purchase of intangibles	–		(400)	
Cash acquired on combination with ACTeCASH	–		263	
Purchase of property, plant and equipment	(8,621)		(3,831)	
Proceeds from sale of property, plant and equipment	99		–	
Interest received	4,879		683	
Net cash used in investing activities		(3,643)		(3,285)
Cash flows from financing activities				
Issue/redemption of shares	–		(1)	
Dividends paid	(28,658)		(63,100)	
Net cash used in financing activities		(28,658)		(63,101)
Net increase in cash and cash equivalents		52,154		21,867
Cash and cash equivalents at the beginning of the year		62,202		40,335
Cash and cash equivalents at the end of the year		114,356		62,202

Notes to the Consolidated Financial Statements

1 General information

Company description and activities

888 Holdings Public Limited Company (the "Company") and its subsidiaries (together the "Group") was founded in 1997 and originally operated as a holding company domiciled in the British Virgin Islands. On 12 January 2000, the Company was continued in Antigua and Barbuda as a corporation under the International Business Corporation Act 1982 with registered number 12512. On 17 December 2003, the Company redomiciled in Gibraltar with the Company number 90099. On 4 October 2005, the Company was admitted to the Official list of the UKLA and admitted to trading on the London Stock Exchange.

The Group has developed innovative proprietary software applications solutions for virtual Casinos, for Poker rooms, e-commerce, credit-card clearing services and online advertising methodologies.

Cassava Enterprises (Gibraltar) Limited (a subsidiary) carried out the operations of the Group during the year, principally under the name www.888.com under the terms of a gaming licence issued in Gibraltar.

Definitions

In these financial statements:

The Company	888 Holdings Public Limited Company.
The Group	888 Holdings Public Limited Company and its subsidiaries.
Subsidiaries	Companies over which the Company has control (as defined in International Accounting Standard 27) "Consolidated and Separate Financial Statements" and whose accounts are consolidated with those of the Company.
Related parties	As defined in International Accounting Standard 24 – "Related Party Disclosures".

2 Significant accounting policies

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

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards, including International Accounting Standards ("IAS") and Interpretations, adopted by the International Accounting Standards Board ("IASB") and endorsed for use by companies listed on an EU regulated market.

The significant accounting policies applied in the financial statements of the Group in the prior years are applied consistently in these financial statements.

The financial statements are presented in thousands of US dollars (US\$'000) because that is the currency the Group primarily trades with its customers in.

The consolidated financial statements comply with the Gibraltar Companies (Accounts) Act 1999, the Gibraltar Companies (Consolidated Accounts) Act 1999 and the Gibraltar Companies Act 1930.

The following interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), are effective for the first time in the current financial year and have been adopted by the Group with no significant impact on its consolidated results or financial position:

IFRIC 4 – Determining whether an arrangement contains a lease (effective for annual periods beginning on or after 1 January 2006).

IFRIC 5 – Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds (effective for annual periods beginning on or after 1 January 2006).

IFRIC 6 – Liabilities arising from participating in a specific market, waste electrical and electronic equipment (effective for annual periods beginning on or after 1 December 2005).

The following standards and interpretations, issued by the IASB or IFRIC, have not been adopted by the Group, and the Group is currently assessing the impact these standards and interpretations will have on the presentation of its consolidated results in future periods:

IFRS 7 – Financial instruments: disclosure (effective for annual periods beginning on or after 1 January 2007).

IFRS 8 – Operating segments (effective for annual periods beginning on or after 1 January 2009).

IFRIC 7 – Applying the restatement approach under IAS 29 – Financial reporting in hyperinflationary economies (effective for annual periods beginning on or after 1 March 2006).

IFRIC 8 – Scope of IFRS 2 – Accounting for share-based payments (effective for annual periods beginning on or after 1 May 2006).

IFRIC 9 – Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006).

IFRIC 10 – Interim financial reporting and impairment (effective for annual periods beginning on or after 1 November 2006).

IFRIC 11 – Group and treasury share transactions (effective for annual periods beginning on or after 1 March 2007).

IFRIC 12 – Service concession arrangements (effective for annual periods beginning on or after 1 January 2008).

IAS 23 (revised) – Borrowing costs (effective for annual periods beginning on or after 1 January 2009).

IFRS 8 contains requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The standard is concerned only with the disclosure and replaces IAS 14 – Segment reporting.

Critical accounting policies, estimates and adjustments

The preparation of consolidated financial statements under IFRS requires the Group to make estimates and judgements that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Included in this note are accounting policies which cover areas that the Directors consider require estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year. These policies together with references to the related notes to the financial information can be found below:

Taxation	Note 6
Share-based payments	Note 17
Discontinued operations	Note 21
Contingent liabilities	Note 22

Presentation of continuing and discontinued operations

As a result of enactment of the UIGEA in October 2006, the Group withdrew from offering real-money activity to the US facing market.

Although the Group did not operate the US facing business as a separate business, it is a separate geographical segment of the Group's business and in accordance with IFRS 5 – "Non-Current Assets Held for Sale and Discontinued Operations" the income statement and related notes are required to show continued and discontinued operations separately.

Net Gaming Revenue and certain direct costs associated with the discontinued operations, which are of distinct nature, were allocated accordingly. Other costs (such as R&D expenses, IT expenses, Share benefit charges, office rent and associated cost, depreciation of fixed assets, gaming duty, Directors and Officers insurance, Directors' fees and tax), which are not distinguishable, were all allocated to the continuing operations and not to the discontinued business. In allocating the rest of the costs of the Group between the two operations, management has applied reasonable estimates in accordance with applicable accounting standards. However, as estimates have necessarily been used in disclosing a geographical segment as a discontinued operations, the results do not necessarily reflect the financial performance which would have been achieved had the discontinued operations been managed as a stand-alone business.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The subsidiaries are Companies controlled by 888 Holdings Public Limited Company. Control exists where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are consolidated from the date the parent gained control until such time as control ceases.

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

The financial statements of subsidiaries are prepared for the same reporting period as the parent company and using consistent accounting policies.

Use of estimates

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

Net Gaming Revenue

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured.

Net Gaming Revenue is defined as follows:

Casino

Casino winnings that are the differences between the amounts of bets placed by members less amounts won by members.

Poker

Ring games – Rake, which is the commission charged from each winning hand played.

Tournaments – Entry fees charged for participation in Poker tournaments.

Casino winnings and revenues from the Poker business are stated after deduction of certain bonuses granted to members.

Foreign currency

Monetary assets and liabilities denominated in non-US dollar currencies are translated into US dollar equivalents using year-end spot foreign exchange rates. Non-monetary assets and liabilities are translated using exchange rates prevailing at the dates of the transactions. Exchange rate differences on foreign currency transactions are included in administrative expenses.

The results and financial position of all Group entities that have a functional currency different from US dollars are translated into the presentation currency as follows:

- (i) monetary assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at an average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) exchange rate differences on translation of Group entities that have functional currencies different from US dollars are included in administrative expenses.

Research and development costs

Research and development expenditure is charged to the statement of income as incurred. IAS 38 "Intangible Assets" requires capitalisation of certain software development costs, subsequent to technological and commercial feasibility being established and the Group having sufficient resources to complete development. Based on the Group's product-development process, technological feasibility and therefore the creation of substantially improved product, is only established upon the completion of a working model. The Group generally does not incur any significant costs between the completion of the working model and the point at which the product is ready for general release.

Taxation

The tax expense represents tax payable for the year based on currently applicable tax rates.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base. Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Intangible assets

All intangible assets are initially recognised at cost.

Amortisation is provided to write off the cost, less estimated residual values, of all intangible assets, evenly over their expected useful lives, and the charge is included within operating expenses. Intangible assets are reviewed annually for evidence of impairment. The annual amortisation rate is as follows:

Domain names – 10%

Property, plant and equipment

Property, plant and equipment is stated at historic cost less accumulated depreciation. Carrying amounts are reviewed at each balance sheet date for impairment.

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

IT equipment	33%
Office furniture and equipment	7–15%
Motor vehicles	15%
Leasehold improvements	Over the shorter of the term of the lease or useful lives

Impairment of non-financial assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives and other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows).

Trade receivables

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

Cash and cash equivalents

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

Equity

Equity issued by the Company is recorded as the proceeds received, net of direct issue costs.

Trade and other payables

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

Chargebacks and returned e-cheques

The cost of chargebacks and returned e-cheques is included in operating expenses.

Leases

Leases are classified as finance leases wherever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases and rentals payable are charged to income on a straight-line basis over the term of the lease.

Provisions

Provisions are recognised when the Group has a present or constructive obligation as a result of a past event from which it is probable that it will result in an outflow of economic benefits that can be reasonably estimated.

Financial instruments

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

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

Segment information

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

The Group operates in the following online gaming segments:

- Casino
- Poker

Member deposits

Member deposits are the amounts that clients place in the Group's electronic "wallet" or bankroll, including provision for bonuses granted by the Group, less management fees and charges applied to member accounts, along with full provision for Casino jackpots. These amounts are repayable on demand in accordance with the applicable terms and conditions.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends this is when declared by the Directors. In the case of final dividends, this is when approved by the shareholders at the Annual General Meeting.

3 Segment information

Business segments – continuing operations

	Year ended 31 December 2006		
	Casino US\$'000	Poker US\$'000	Consolidated US\$'000
Net Gaming Revenue	88,760	68,240	157,000
Result			
Segment result	52,101	41,374	93,475
Unallocated corporate expenses ¹			84,994
Operating profit			8,481
Finance income			4,883
Tax expense			(3,117)
Profit for the period – continuing operations			10,247
Profit for the period – discontinued operations (Note 21a)			64,254
Profit for the period			74,501
Assets			
Unallocated corporate assets			137,604
Total assets			137,604
Liabilities			
Segment liabilities – Poker			15,445
Segment liabilities – Casino			7,226
Unallocated corporate liabilities			27,931

Total liabilities	50,602
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1 Including share benefit charges of US\$8,829,000.

	Year ended 31 December 2005		
	Casino US\$'000	Poker US\$'000	Consolidated US\$'000
Net Gaming Revenue	85,227	37,755	122,982
Result			
Segment result	41,163	13,957	55,120
Unallocated corporate expenses ¹			75,892
Operating loss			(20,772)
Finance income			735
Tax expense			(2,136)
Loss for the period – continuing operations			(22,173)
Profit for the period – discontinued operations (Note 21a)			70,188
Profit for the period			48,015
Assets			
Unallocated corporate assets			87,566
Total assets			87,566
Liabilities			
Segment liabilities – Poker			20,099
Segment liabilities – Casino			9,226
Unallocated corporate liabilities			25,911
Total liabilities			55,236

1 Including share benefit charges of US\$17,234,000.

Other than where amounts are allocated specifically to the Casino and Poker segments above, the expenses, assets and liabilities relate jointly to both segments. Any allocation of these items would be arbitrary.

Geographical segments

The Group's performance can also be reviewed by considering the geographical markets and geographical locations within which the Group operates. This information is outlined below:

Net Gaming Revenue by geographical market

	Year ended 31 December 2006 US\$'000	Year ended 31 December 2005 US\$'000
	UK	70,562
Europe	57,056	47,289
Americas (excluding US)	17,601	12,007
Rest of World	11,781	9,815
Net Gaming Revenue – Continuing operations	157,000	122,982
Net Gaming Revenue – Discontinued operations (Note 21c)	132,907	148,049
Net Gaming Revenue	289,907	271,031

Assets by geographical location

	Carrying amount of segment assets by location		Additions to property, plant and equipment	
	Year ended 31 December 2006 US\$'000	Year ended 31 December 2005 US\$'000	Year ended 31 December 2006 US\$'000	Year ended 31 December 2005 US\$'000
Caribbean	357	235	281	72
Europe	121,008	74,589	1,832	1,731
Rest of World	16,239	12,742	6,508	2,028
	137,604	87,566	8,621	3,831

4 Administrative expenses

	Year ended 31 December 2006 US\$'000	Year ended 31 December 2005 US\$'000
	Share benefit charges – all equity settled	8,829
Other administrative expenses	19,824	16,974

Administrative expenses – Continuing operations	28,653	34,208
Administrative expenses – Discontinued operations (Note 21a)	7,284	3,120
Administrative expenses	35,937	37,328

5 Operating profit (loss) from continuing operations

	Year ended 31 December 2006 US\$'000	Year ended 31 December 2005 US\$'000
Operating profit (loss) is stated after charging:		
Staff costs	52,131	36,822
Audit fees	434	357
Other fees paid to auditors	179	104
Depreciation	3,801	2,700
Amortisation	–	20
Impairment	–	832
Chargebacks and returned e-cheques	2,507	3,226
Exchange (gains) losses	(4,742)	423
Payment service providers' commissions	9,140	9,719
Share benefit charges – all equity settled	8,829	17,234

In the income statement total staff costs, excluding share benefit charges of US\$8,829,000 (2005: US\$17,234,000), are included within the following expenditure categories.

	2006 US\$'000	2005 US\$'000
Operating expenses	23,810	19,507
Research and development expenses	14,467	9,968
Administrative expenses	13,854	7,347
	52,131	36,822

At 31 December 2006 the Company employed 736 (2005: 886) staff.

6 Taxation

Corporate taxes

	Year ended 31 December 2006 US\$'000	Year ended 31 December 2005 US\$'000
Current tax	3,663	2,497
Deferred tax	(546)	(361)
Taxation expense	3,117	2,136

Analysis of current tax for the year

	Year ended 31 December 2006 US\$'000	Year ended 31 December 2005 US\$'000
Profit before taxation	77,618	50,151
Current tax at the effective tax rate for the year	3,663	2,497
Effect of provisions (note 11)	(546)	(361)
Taxation expense	3,117	2,136

Current tax is calculated with reference to the profit of the Company and its subsidiaries in their respective countries of operation:

Gibraltar – 888 and its Gibraltar registered subsidiaries are subject to the provisions of the Gibraltar Companies (Taxation and Concessions) Act (the “CTCA”) as a tax-exempt Company. Subject to a change of ownership or activity of a tax-exempt company, the grandfathering of tax-exempt benefits in respect of existing tax-exempt companies will extend up to 31 December 2010. Domestic corporate tax in Gibraltar is 35% (2005: 35%).

Israel – 888's subsidiaries in Israel have entered into separate transfer pricing agreements on an arm's-length basis with the Israeli Income Tax Commissioner. Those agreements are effective until the end of 2007 in respect of the Israeli branch of Intersafe Global Limited and 2010 in respect of Random Logic Limited. Domestic corporate tax in Israel is 31% (2005: 33%).

UK – 888's subsidiary in the UK pays corporate tax in the UK at the applicable rate of 30% (2005: 30%).

7 Earnings per share

Basic earnings per share from continuing operations

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

Diluted earnings per share

In accordance with IAS 33, "Earnings per share", the weighted average number of shares for diluted earnings per share takes into account all potentially dilutive shares and share options granted, which are not included in the number of shares for basic earnings per share. In addition, certain employee options have also been excluded from the calculation of diluted EPS as their exercise price is greater than the weighted averaged share price during the year and therefore would not be advantageous for the holders to exercise the option. The number of options excluded from the diluted EPS calculation is 3,230,182 (2005: US\$nil).

	Year ended 31 December 2006 US\$'000	Year ended 31 December 2005 US\$'000
Profit (loss) from continuing operations attributable to ordinary shareholders	10,247	(22,173)
Weighted average number of Ordinary Shares in issue	337,223,724	337,096,320
Weighted average number of dilutive Ordinary Shares	341,834,214	338,419,476
Continuing operations		
Basic	3.0¢	(6.6)¢
Diluted	3.0¢	(6.6)¢
Discontinued operations (Note 21f)		
Basic	19.1¢	20.8¢
Diluted	18.8¢	20.8¢
Total		
Basic	22.1¢	14.2¢
Diluted	21.8¢	14.2¢

Earnings per share excluding share benefit charges

	Year ended 31 December 2006 US\$'000	Year ended 31 December 2005 US\$'000
Profit (loss) from continuing operations attributable to ordinary shareholders	10,247	(22,173)
Share benefit charges	8,829	17,234
Profit (loss) excluding share benefit charges	19,076	(4,939)
Weighted average number of Ordinary Shares in issue	337,223,724	337,096,320
Weighted average number of dilutive Ordinary Shares	341,834,214	338,419,476
Continuing operations		
Basic earnings per share excluding share benefit charges	5.7¢	(1.5)¢
Diluted earnings per share excluding share benefit charges	5.6¢	(1.5)¢
Discontinued operations (Note 21f)		
Basic earnings per share excluding share benefit charges	19.1¢	20.8¢
Diluted earnings per share excluding share benefit charges	18.8¢	20.8¢
Total		
Basic earnings per share excluding share benefit charges	24.8¢	19.3¢
Diluted earnings per share excluding share benefit charges	24.4¢	19.3¢

8 Dividends

	Year ended 31 December 2006 US\$'000	Year ended 31 December 2005 US\$'000
Interim dividend	15,172	–
Special dividends	13,486	63,100
Dividends paid	28,658	63,100

The Board of Directors has recommended to the shareholders a final dividend in respect of the year ended 31 December 2006, of 8.88¢ per share.

9 Intangible assets

During 2005 there were additions to goodwill and domain names of US\$452,000 and US\$400,000 respectively. During the course of 2005 these balances were amortised and impaired to US\$nil. Consequently the net book value of intangible assets at 31 December 2005 was US\$nil.

There have been no movements in respect of intangible assets during the current year and hence the net book value of intangible assets at 31 December 2006 was US\$nil.

10 Property, plant and equipment

	IT equipment US\$'000	Office furniture and equipment US\$'000	Motor vehicles US\$'000	Leasehold improvements US\$'000	Total US\$'000
Cost					
At 1 January 2006	10,614	2,077	459	5,202	18,352
Additions	3,163	254	–	5,204	8,621
Disposals	–	–	(163)	–	(163)
At 31 December 2006	13,777	2,331	296	10,406	26,810
Accumulated depreciation					
At 1 January 2006	7,576	618	61	1,756	10,011
Charge for the year	2,085	208	128	1,380	3,801
Disposals	–	–	(35)	–	(35)
At 31 December 2006	9,661	826	154	3,136	13,777
Depreciated cost					
At 31 December 2006	4,116	1,505	142	7,270	13,033
At 31 December 2005	3,038	1,459	398	3,446	8,341
Prior year amounts					
Depreciated cost at 1 January 2005	2,248	1,087	215	3,692	7,242
Additions in 2005	2,420	702	272	437	3,831
Disposals in 2005	–	–	(32)	–	(32)
Depreciation in 2005	(1,630)	(330)	(57)	(683)	(2,700)
Depreciated cost at 31 December 2005	3,038	1,459	398	3,446	8,341

11 Deferred taxes

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The Group's deferred tax assets resulting from temporary differences are as follows:

	31 December 2006 US\$'000	31 December 2005 US\$'000
Accrued severance pay	141	195
Provision for share option charges	176	–
Provision for vacation	213	154
Provision for convalescence	16	12
	546	361

12 Cash and cash equivalents

	31 December 2006 US\$'000	31 December 2005 US\$'000
Cash and cash equivalents	106,811	56,146
Restricted cash	7,545	6,056
	114,356	62,202

Restricted cash primarily relates to deposits held by banks for guarantees.

13 Trade and other receivables

	31 December 2006 US\$'000	31 December 2005 US\$'000
Trade receivables	6,189	12,535
Other receivables and prepayments	3,480	2,478
	9,669	15,013

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

14 Share capital

Share capital comprises the following:

Authorised
31 December 31 December 31 December 31 December

	2006 Number	2005 Number	2006 US\$'000	2005 US\$'000
Ordinary Shares of US\$1 each	–	3,101,000	–	3,101
Effect of share split	–	(3,101,000)	–	(3,101)
Ordinary Shares of £0.005 each	426,387,500	426,387,500	3,880	3,880
	426,387,500	426,387,500	3,880	3,880

	Allotted, called up and fully paid			
	31 December 2006 Number	31 December 2005 Number	31 December 2006 US\$'000	31 December 2005 US\$'000
Ordinary Shares of US\$1 each	–	3,064,512	–	3,065
Effect of share split	–	(3,064,512)	–	(3,065)
Ordinary Shares of £0.005 each	337,096,320	337,096,320	3,068	3,068
Issue of Ordinary Shares of £0.005 each	522,500	–	5	–
	337,618,820	337,096,320	3,073	3,068

On 4 October 2006, the Company issued 522,500 Ordinary Shares of £0.005 each in respect of shares issued and nil cost options exercised as part of the Company's employee share option plan (see note 17).

Shares issued are converted into US\$ at the exchange rate prevailing on the date of issue. The issued and fully paid share capital of the Group amounts to US\$3,073,000 (2005: US\$3,068,000) and is split into 337,618,820 (2005: 337,096,320) ordinary shares. The share capital in UK Sterling (GBP) is £1,688,094 (2005: £1,685,482) and translates at an average exchange rate of US\$1.82 (2005: US\$1.82) to GBP.

15 Trade and other payables

	31 December 2006 US\$'000	31 December 2005 US\$'000
Trade payables	3,111	4,550
Corporate taxes	1,016	766
Other payables and accrued expenses	23,804	20,277
	27,931	25,593

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

16 Principal investments in subsidiaries

Name	Country of incorporation	Percentage of equity interest 2006 %	Percentage of equity interest 2005 %	Nature of business
Intersafe Global Limited	Gibraltar	100	100	Payment processor
Cassava Enterprises Limited	Antigua	100	100	Member call centre operator
Virtual Services Limited	BVI	100	100	Advertising
Virtual Holdings Management Services (Gibraltar) Limited	Gibraltar	100	100	Operates Group headquarters
Intersafe Global (Europe) Limited	Gibraltar	100	100	Payment processor
Cassava Enterprises Services (Gibraltar) Limited	Gibraltar	100	100	Gaming website operator
Virtual Marketing Services (UK) Limited	UK	100	100	Advertising
Cassava Sports Limited	Gibraltar	100	100	Domain site owner through which a third-party operates a betting exchange
Active Media Limited	BVI	100	100	Member call centre employer
Virtual Marketing Services (Gibraltar) Limited	Gibraltar	100	100	Marketing acquisition
Dixie Operation Limited	Antigua	100	100	Member call centre operator
Random Logic Limited	Israel	100	100	Research, development and marketing
ACTeCASH Limited ¹	Gibraltar	–	–	e-Wallet service

1 On 20 December 2005, the Group took responsibility for the management of ACTeCASH Limited, a company with common shareholders. From this date ACTeCASH was managed as a unit of the Group and utilised staff employed by the Group. In accordance with IAS 27 "Consolidated and Separate Financial Statements", the Group is deemed to have control of ACTeCASH by virtue of the fact it has the power to govern the financial and operating policies of this company and derives economic benefit from doing so. As such ACTeCASH has been consolidated as part of the Group.

17 Share-based payment

Prior to flotation, the Company adopted two equity-settled employee share incentive plans – the 888 All-Employee Share Plan and the Long-Term Incentive Plan. Awards have been granted under the 888 All-Employee Share Plan conditional upon flotation. The 888 All-Employee Share Plan is open to all employees and Executive Directors of the Group who are not within six months of their

normal retirement age at the discretion of the Remuneration Committee. Awards under this scheme will vest in instalments over a fixed period of up to four years.

On 14 September 2006, the Company has granted awards to certain Executive Directors and members of its senior management. These awards are subject to performance conditions imposed by the Remuneration Committee at the date of grant.

Details of shares and share options granted as part of the 888 All-Employee Share Plan and shares granted vesting immediately on IPO and thereafter:

Share options granted

	31 December 2006 Number	31 December 2005 Number
Outstanding at the beginning of the year	3,578,287	–
Market value options granted during the year	2,224,131	3,578,287
Market value options lapsed during the year	(1,597,499)	–
Outstanding at the end of the year ¹	4,204,919	3,578,287
Weighted average exercise price	£1.67	£1.75

1 Of the total number of options outstanding at the end of the year 784,491 had vested and were exercisable at the end of the year (2005: nil).

Shares granted

	31 December 2006 Number	31 December 2005 Number
Outstanding at the beginning of the year	5,292,622	–
Share granted – future vesting	5,595,219	5,292,622
Share granted – immediate vesting	–	5,078,357
Lapsed future vesting shares	(2,003,294)	–
Shares issued during the year ¹	(567,908)	(5,078,357)
Outstanding at the end of the year	8,316,639	5,292,622

1 Of the total number of shares issued, 45,408 shares were issued as part of the IPO.

The following information is relevant in the determination of the fair value of options granted during the year under the equity-settled 888 All-Employee Share Plan:

Valuation information

	2006	2005
Option pricing model used	Monte Carlo	Binomial
Weighted average share price at grant date	£1.61	£1.75
Weighted exercise price	£1.67	£1.75

Exercise period of the market value options is from vesting until expiry of 10 years after grant date.

In accordance with International Financial Reporting Standards a charge to the income statement in respect of any shares or options granted under the above schemes will be recognised and spread over the vesting period of the shares or options based on the fair value of the shares or options at the date at grant, adjusted for changes in vesting conditions at each balance sheet date. This charge has no cash impact.

Share benefit charges

	Year ended 31 December 2006 US\$'000	Year ended 31 December 2005 US\$'000
Charges in respect of shares granted to employees on IPO	–	15,087
Charges in respect of share and option awards	8,829	2,147
Charge for the year	8,829	17,234

The source of the shares granted to employees on IPO was the shareholders' immediately before the IPO rather than the Company. An amount equalling the charge in relation to these shares has therefore been transferred from the share benefit reserve to accumulated profit in the prior year.

18 Related party transactions

At 31 December 2006, the Group was owed US\$nil by companies controlled by shareholders of the Group and by its shareholders (2005: US\$1,649,000), of which US\$nil (2005: US\$1,633,000) was due from shareholders relating to flotation expenses.

At this date the Group owed to its shareholders US\$nil (2005: US\$318,000).

During the year the Group paid US\$212,464 (2005: US\$198,768) in respect of rent and office expenses to companies of which Mr John Anderson is a Director. At 31 December 2006 the amount owed to those companies was US\$nil (2005: US\$nil).

Remuneration paid to the Directors in the year totalled US\$9,258,000 (2005: US\$3,176,000).

Share benefit charge in respect of awards granted to the Directors totalled US\$4,544,000 (2005: US\$6,059,000).

19 Commitments

Lease commitments

Future minimum lease commitments under property operating leases as at 31 December for the year ended 31 December 2006, are as follows:

	31 December 2006 US\$'000	31 December 2005 US\$'000
Leases expiring within		
One year	3,060	1,985
One to five years	8,204	2,617
	11,264	4,602

The amount paid in the year was US\$2,620,000 (2005: US\$2,052,463).

Lease commitments on the Group's property are shown to the date of the first break clause.

20 Financial risk management objectives and policies

The Group is exposed through its operations to currencies, interest rate and credit risk. Policy for managing these risks is set by the Board following recommendations from the Chief Financial Officer. The policy for each of these risks is detailed below.

Currency risk

The Group incurs foreign currency risk on sales and purchases that are denominated in a currency other than US dollars. The Group continually monitors the foreign currency risk and takes steps to ensure that the net exposure is kept to an acceptable level.

Interest rate risk

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

Credit risk

The Group's credit risk is primarily attributable to receivables from payment service providers. Management monitors those balances on a regular basis.

21 Discontinued operations

(a) Consolidated Income Statement from discontinued operations

	Year ended 31 December 2006 US\$'000	Year ended 31 December 2005 US\$'000
Net Gaming Revenue	132,907	148,049
Operating expenses	28,086	29,652
Research and development expenses	—	—
Selling and marketing expenses	33,283	45,089
Administrative expenses	7,284	3,120
Operating profit before reorganisation costs	68,287	70,188
Charges in respect of reorganisation costs	4,033	—
Operating profit	64,254	70,188
Finance income	—	—
Profit from discontinued operations	64,254	70,188

(b) Segment information

Business segments

	Year ended 31 December 2006		
	Casino US\$'000	Poker US\$'000	Consolidated US\$'000
Net Gaming Revenue	71,972	60,935	132,907
Result			
Segment result	40,186	37,678	77,864
Unallocated corporate expenses			13,610
Operating profit			64,254
Finance income			—

Tax expense	–
Profit for the period	64,254

	Year ended 31 December 2005		
	Casino US\$'000	Poker US\$'000	Consolidated US\$'000
Net Gaming Revenue	75,987	72,062	148,049
Result			
Segment result	38,392	41,212	79,604
Unallocated corporate expenses			9,416
Operating profit			70,188
Finance income			–
Tax expense			–
Profit for the period			70,188

Other than where amounts are allocated specifically to the Casino and Poker segments above, the expenses relate jointly to both segments. Any allocation of these items would be arbitrary.

(c) Geographical segments

Net Gaming Revenue by geographical market

	Year ended 31 December 2006	Year ended 31 December 2005
	US\$'000	US\$'000
US	132,907	148,049
	132,907	148,049

(d) Profit from discontinued operations

	Year ended 31 December 2006	Year ended 31 December 2005
	US\$'000	US\$'000
Profit from discontinued operations is stated after charging:		
Staff costs	6,638	5,114
Chargebacks and returned e-cheques	15,465	15,417
Payment service providers' commissions	5,821	7,936

In note 21(a) total staff costs, are included within the following expenditure categories:

	2006	2005
	US\$'000	US\$'000
Operating expenses	5,842	4,542
Administrative expenses	796	572
	6,638	5,114

(e) Cash flows from discontinued operations

	Year ended 31 December 2006	Year ended 31 December 2005
	US\$'000	US\$'000
Net cash from operating activities	53,506	79,496
Net cash generated from investing activities	2,244	376
Net cash used in financing activities	(14,951)	(34,705)
Net increase in cash and cash equivalents	40,799	45,167

(f) Earnings per share

	Year ended 31 December 2006	Year ended 31 December 2005
Profit from discontinued operations attributable to ordinary shareholders	64,254	70,188
Weighted average number of Ordinary Shares in issue	337,223,724	337,096,320
Weighted average number of dilutive Ordinary Shares	341,834,214	338,419,476
Basic earnings per share	19.1¢	20.8¢
Diluted earnings per share	18.8¢	20.8¢

22 Contingent liabilities

From time to time the Group is subject to legal claims and actions against it. The Group takes legal advice as to the likelihood of success of such claims and actions.

Regulatory issues

As part of the Board's ongoing regulatory compliance and operational risk assessment process, the Board continues to monitor legal and regulatory developments, and their potential impact on the business, and continues to take appropriate advice in respect of these developments. Following the enactment of the UIGEA on 13 October 2006, the Group stopped taking any deposits from customers in the US and barred such customers from wagering real-money on all of the Group's sites.

Notwithstanding this, there remains a residual risk of an adverse impact arising from the Group having had customers in the US prior to the enactment of the UIGEA. The Board is not able to identify reliably at this stage what if any liability may arise and accordingly no provision has been made.

23 Events subsequent to the balance sheet date

On 29 March 2007, the Company announced the acquisition of the online Bingo business of Globalcom Limited, a privately owned company registered in Belize, by way of an asset acquisition for an all cash consideration of US\$32.4 million (less amounts payable to customers). A further earn-out payment of up to US\$11.0 million may be payable in cash 12 months from completion on the basis of actual performance during the financial year ended 31 December 2007. The consideration is broken down as follows: US\$10.8 million, initial consideration, payable at completion, US\$5.4 million (less amounts payable to customers) payable 90 days from completion and the balance, payable on the first anniversary of completion of the acquisition. The majority of the consideration pertains to goodwill. Certain conditions must be met prior to acquisition being finalised. It is expected that the transaction will be completed during 2007.