



Report and Financial Statements 2005



32Red Plc (formerly Trafalgar Betting & Gaming Limited)
Report and Financial Statements
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32Red Plc (formerly Trafalgar Betting & Gaming Limited)
Company Information

Directors

John Lyndon Hodgson
Edward John Ware
Graham Francis Campbell
Bruno George Roderick Callaghan
David Thomas Fish
Simon Benjamin Derek Dimmer
Patrick Joseph Harrison
Edward Henry Duff Andrewes

Secretary

John Hodgson

Auditors

Grant Thornton UK LLP
Churchill House
Chalvey Road East
Slough
Berkshire SL1 2LS

Grant Thornton (Gibraltar) Limited
6A Queensway
Gibraltar

Bankers

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London Corporate Banking
50 Pall Mall
London, SW1 1QA

NatWest Bank plc
Bishopgate
P O Box 34
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London, EC2P 2AP

Solicitors

Hodgson Bilton
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Gibraltar

Registered office

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Gibraltar

Registered number

83626

32Red Plc (formerly Trafalgar Betting & Gaming Limited)

Chairman's Statement

2005 was a momentous year for 32Red. The Company significantly developed its casino and poker businesses during the financial year and on the 23rd of September 2005, listed on the Alternative Investment Market. The Company is pleased to be quoted on the Alternative Investment Market on the London Stock Exchange and is well positioned to utilise and benefit from its PLC status.

Financial review

The continuing success of 32Red was marked in 2005 by growth in gaming revenues of 67% to £9.77m (2004: £5.87 m). This performance was driven by strong growth in Internet casino revenue and supported by an increasing contribution from the 32Red poker room. The total number of players placing a real money bet during the year increased during the year by 102% to 17,587 (2004: 8,723), and total new real money players recruited rose by 91% to 14,451 (2004: 7,567).

Casino revenues continued to grow in 2005, showing 57% growth to £8.94m (2004: £5.68m). 32Red's poker product grew in 2005, generating revenues of £0.83m during the year.

The executive team maintains a clear focus with regard to costs. A significant element of 32Red's expenditure is variable. External software provision is entirely dependent on revenue generation and marketing costs are closely managed in line with business performance. The management of effective internal and external marketing expenditure has gone hand-in-hand with the growth in the casino and poker revenues in 2005. We have also been able to spend tactically on campaigns and have adapted quickly to opportunities in the market.

We continue to invest in the highest quality personnel who interact directly with players in order that 32Red maintains the excellent standard of service for which we are known. We have also invested in a new data centre at our headquarters in Gibraltar. This project was successfully completed earlier in the year and now affords us greater scalability and full disaster recovery protection.

PBIT for the year prior to IPO and share option costs was £2.04m. (2005 operating profit of £1.29m is stated after charging IPO costs of £718k and share option costs of £35k.) This figure was in line with management expectations. Earnings per share – after IPO and share option costs - were 2.76 pence in 2005 (against 2.38 pence in 2004).

32Red continues to generate significant amounts of cash and the balance sheet is strong. We will ensure that our future dividend policy will be compatible with our commitment to invest in the future development of the Company.

Strategy

The industry took huge strides forward on a number of fronts in 2005. The introduction of more Companies to the public markets combined with regulatory advances in the United Kingdom significantly increased the profile of gambling in general and Internet gaming in particular.

32Red is very much a UK-centric business and 82% of our revenues came from this market. The executive team is well equipped to further the Company's UK aspirations and the Board intends to pursue a UK marketing focus in 2006.

At the same time, we will look to enhance our future prospects by extending the reach of our brand in overseas markets, including Japan and continental Europe. To this end a Japanese language 32Red casino was launched towards the end of 2005. We will also continue to look at opportunities to grow and broaden 32Red's revenue streams through acquisition.

We are confident that the technology, the platform and most importantly the people are in place for the Company to take advantage of opportunities within the wider gambling sector and also to exploit further the strength of the 32Red brand.

Board

The Board is pleased to welcome Edward Andrewes to the team. Ed joined 32Red on the 9th of February 2006 in the role of Development Director. Ed's experience and expertise in the betting and gaming world will be a major asset to the Company as we move forward and aim to take advantage of business opportunities within the remote gambling sector.

The formation of three important committees supports our corporate governance policies. In addition to Audit and Remuneration Committees we have also instituted a Responsible Gambling Committee, consisting of Chairman Patrick Harrison, Operations Director and non-executive directors John Hodgson and David Fish, QC. This committee will review our policies and procedures around responsible gambling on a regular basis with the objective of ensuring that the Company maintains its proactive stance in this area. Its first meeting will be held on the 30th of March 2006.

The professionalism and dedication of all our employees has shone through in this pivotal year for the Company and on behalf of the Board I would like to express my sincere gratitude and appreciation for their unstinting efforts.

Outlook

The outlook is positive for 32Red with trading in the early part of 2006 being buoyant and both the casino and poker businesses flourishing. The Board looks forward to 32Red making good progress with its strategic objectives and achieving further growth in 2006.

David Fish QC
Chairman, 32Red Plc

32Red Plc (formerly Trafalgar Betting & Gaming Limited)

CEO's Statement

2005 saw 32Red continue along its profit plan path thanks to strong performances in both our casino and poker products. Our profile has steadily increased both on and offline and we are pleased to deliver profits in line with expectations for the year.

32Red's reputation is founded on top class service and the operations team have ensured our good name amongst the players has been maintained this year. As an Internet-based business, advertising and marketing effectiveness will remain a vital part of our growth prospects, but we also greatly value word of mouth recommendation. The high levels of service we deliver not only generate excellent yields per player, but also drive new player recruitment thanks to personal referrals from existing 32Red customers.

This was reflected in positive Key Performance Indicator trends during 2005. Total active players during the year grew by 102% to 17,587. Casino active players were up 54% to 10,605 (2004: 7,567), while poker players rose by 277%, (albeit from a low base) to 6,982.(2004 1,851) The annual yield per player for casino grew to £843 (2004: £826) and for poker the increase was from £102 to £117. We are particularly pleased with the Company's yield per casino player performance, which compares favourably with industry averages.

Cost control focus has remained on variable expenses for the business and the principles central to how the business is managed in this area have guided us well. Cost per acquisition, which is defined as total marketing spend, excluding free bets, divided by the number of new players across both casino and poker platforms was £147 in 2005 (2004 £174). This remains a key performance indicator for the Company. We will continue to apply our cost metrics to budget for all variable expenses in 2006. Our marketing spend grew by over 60% from 2004 to 2005, a level of growth we intend repeating in 2006. We have made strides in building our profile both on and offline in the latter part of last year and our intention is to build on this, whilst maintaining a careful and measured approach to new marketing areas and techniques.

The Company rolled out new and proprietary affiliate software during 2005 which brings benefits to our advertising partners and also aids in the management of 32Red's affiliate portfolio. Already the recipient of an affiliate programme industry award, the Company expects its investment in the technology driving 32RedAffiliates.com to continue successfully in 2006.

A Japanese language 32Red Casino was launched towards the end of 2005 and work continues to develop our profile and service in this important territory.

The 32Red Casino further established itself in the very top tier of online casino operations in 2005. The addition of Japanese language software, a fourth currency option (Canadian Dollars) and the development of an enhanced affiliate programme backed up efforts in the marketing and operational fronts. Our lifetime customer values have increased and our challenge is to maintain this level of performance as we grow. The recent recognition as Casinomeister's Best Casino for the third year in succession is something of which the Board and our employees are rightly very proud. This is a clear indication of 32Red's excellent reputation among online gamers.

We have further established our poker product in 2005 and we have built up the service and excitement which we offer to our poker players. New players and poker revenues have grown accordingly. The year ahead offers us the opportunity to increase our market share and the introduction at the end of last year of casino games within the poker room environment, will aid our efforts in this regard.

We expect to increase our poker income in 2006 through further expansion of our marketing programme, along with product and service development. Whilst our performance in 2005 was encouraging, we see significant growth opportunities for the product both in the United Kingdom and in Europe in the coming year. Our partnership with Prima Poker enables us to remain at the forefront of poker software development and the network provides more than adequate liquidity for our players. The level of recruitment has risen markedly over the last few months and we intend to build upon this success.

It is likely that 2005 will be remembered as the beginning of the next phase in remote gambling. The United Kingdom was again the centre of further regulatory development but these advances were overshadowed by some high profile corporate finance activity in the City of London. 32Red is pleased to be very much part of an industry generating significant profits at this early stage in its development. It has been an excellent year for the Company and I believe we are well positioned to achieve further strong growth in 2006.

Edward Ware
CEO, 32Red Plc

32Red Plc (formerly Trafalgar Betting & Gaming Limited)

Corporate Governance Statement

Audit Committee

The committee comprises, David Fish QC (Chairman), John Hodgson and Bruno Callaghan, who are all non-executive directors. The Audit Committee met for the first time post-Admission on 20 February 2006. Representatives of the Company's Auditors, Grant Thornton, and Finance Director, Simon Dimmer were also invited to attend. The Committee reviewed the draft financial statements for the year ended 31 December 2005 and established that accounts had been prepared and audited in accordance with International Financial Reporting Standards. The roles of Grant Thornton (Gibraltar) Limited, who carried out the Gibraltar statutory audit and Grant Thornton UK LLP, who are the auditors of the company, were clarified. The Committee agreed that no specific internal audit function was warranted at present. It was agreed that the next Audit Committee meeting would take place on Thursday 30 March 2006 and that Grant Thornton would be invited to attend.

Remuneration Committee

The committee comprises, David Fish QC (Chairman), John Hodgson and Bruno Callaghan, who are all non-executive directors. The Remuneration Committee met for the first time post-IPO on 20 February 2006 and reviewed the Committee's terms of reference and duties. The Committee adopted a broad policy that the remuneration package of all executive directors should be similar in terms of annual salary, share options and other benefits received. The Committee noted that the Chief Executive received a higher salary, as expected, but that he had no share options under the Company's Employee Share Option Plan (ESOP). To secure the recruitment of Edward Andrewes, the new Development Director, the Committee approved the grant of additional share options, over and above the number of share options held by other executive directors, but subject to conditions including a condition that he invest his own funds in purchasing shares in the Company. For this purpose, in exercise of their power under ESOP Rule 12, the Committee resolved to alter Rule 5.6 in the case of Edward Andrewes by relaxing the restriction on maximum number or value of Ordinary Shares over which options may be granted in any 12 month period. The Remuneration Committee will meet again on 30 March 2006.

Responsible Gaming Committee

The committee comprises, Patrick Harrison (Chairman), David Fish QC and John Hodgson. The Responsible Gaming Committee will meet for the first time on 30th March 2006 so as to determine and agree, with the Board, the framework or broad policy for the Company's Responsible Gaming Policy. The objective of such policy shall be to ensure that the Company has taken all reasonable steps to restrict underage players from accessing its products and that systems and procedures are established to reduce exposure to problem gamblers.

In determining such policy, the Committee will:

- 1) give due regard to the legislative requirements of both the Gibraltar Gaming Ordinance and the UK Gambling Act in respect of responsible gaming.
- 2) give due regard to the requirements of GamCare or other similar responsible gaming standards.

32Red Plc (formerly Trafalgar Betting & Gaming Limited)

Directors' Report

The directors present their report and financial statements for the year ended 31 December 2005

Principal activities and review of the business

The company's principal activity during the year continued to be that of an on-line casino and poker room.

Turnover has increased by 67% during the year ended 31 December 2005. The company is in a good position to take advantage of any opportunities which may arise in the future.

Results and dividends

The profit for the year, after taxation, amounted to £1,300,239 (2004: £1,119,772). The directors recommended payment of dividends pre IPO. The total ordinary dividends paid amounted to £1,460,100 (2004: £786,570) for the year which leaves a loss of £159,861 (2004 profit: £333,202) to be retained.

On 22 August 2005 the company re-registered as a public company in Gibraltar, and changed its name from Trafalgar Betting & Gaming Limited to 32Red Plc. Previously the company was registered as a private limited company.

Future developments

The directors aim to maintain the management policies which have resulted in the company's substantial growth in recent years. They consider that the next year will show a further significant growth in revenue.

Directors

The directors who served during the year and their interests in the share capital of the company were as follows:

	£0.002 Ordinary shares	
	2005	2004
John Lyndon Hodgson	-	-
Edward John Ware	-	-
Graham Francis Campbell	-	-
Bruno George Roderick Callaghan	-	-
David Thomas Fish	8,000,000	8,000,000
Simon Benjamin Derek Dimmer	-	-
Patrick Joseph Harrison	-	-
Edward Henry Duff Andrewes (appointed 9th February 2006).	-	-

Political and charitable donations

During the year, the company made charitable contributions totalling £612 (2004: £2,736).

32Red Plc (formerly Trafalgar Betting & Gaming Limited)

Directors' Report

Directors' responsibilities

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Gibraltar Companies Ordinance, 1930 and Companies (Accounts) Ordinance, 1999. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Auditors

The auditors of the company are Grant Thornton UK LLP. The auditors of the company for statutory reporting purposes in Gibraltar are Grant Thornton (Gibraltar) Limited.

Resolutions to reappoint both firms will be put to the members at the Annual General Meeting.

This report was approved by the board on 28th February 2006.

Edward John Ware
Director

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF

32RED PLC

We have audited the financial statements of 32Red Plc for the year ended 31 December 2005 which comprise the Income Statement, the Statement of Changes in Equity, Balance Sheet, the Statement of Cash Flows and notes 1 to 18. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 182 of the Gibraltar Companies Ordinance 1930 (as amended). Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Gibraltar Companies Ordinance 1930 (as amended) and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Chief Executive Officer's statement and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other

irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Gibraltar Companies Ordinance 1930 (as amended) and Article 4 of the IAS Regulation.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
LONDON

1 March 2006

32Red Plc (formerly Trafalgar Betting & Gaming Limited)
Income Statement
for the year ended 31 December 2005

	Notes	2005 £	2004 £
Net gaming wins	1	9,770,770	5,865,877
Cost of sales		<u>(6,280,899)</u>	<u>(3,895,031)</u>
Gross Profit		3,489,871	1,970,846
Administrative expenses			
Other administrative expenses		(1,505,325)	(857,472)
IPO related costs		<u>(718,414)</u>	<u>-</u>
		(2,223,739)	(857,472)
Other operating income		<u>22,831</u>	<u>8,975</u>
Operating Result	2	1,288,963	1,122,349
Finance income	4	11,501	7,648
Finance costs	4	<u>-</u>	<u>(10,000)</u>
Profit before taxation for the year		1,300,464	1,119,997
Tax on profit on ordinary activities	7	<u>(225)</u>	<u>(225)</u>
Net result for the year		<u><u>1,300,239</u></u>	<u><u>1,119,772</u></u>
Earnings per share (pence)			
Basic	5	2.8	2.4
Diluted	5	2.7	2.3
Dividends			
Dividends paid in the year (pence per share)		3.08	1.67
Dividends paid in the year (£)		1,460,100	786,570

The notes on pages 15 to 31 form part of these financial statements

32Red Plc (formerly Trafalgar Betting & Gaming Limited)
Statement of Changes in Equity
for the year ended 31 December 2005

	Equity attributable to equity holders of 32Red Plc				Total Equity
	Share capital £	Share premium £	Share options reserve £	Retained earnings £	£
Balance at 1 January 2004	94,200	855,800	585	(332,641)	617,944
Share options granted	-	-	6,323	-	6,323
Profit for the year	-	-	-	1,119,772	1,119,772
Dividends	-	-	-	(786,570)	(786,570)
Balance 1 January 2005	94,200	855,800	6,908	561	957,469
Shares Issued	671	301,829	-	-	302,500
Share options granted	-	-	93,122	-	93,122
Share options exercised	-	-	(686)	686	-
Profit for the period	-	-	-	1,300,239	1,300,239
Dividends	-	-	-	(1,460,100)	(1,460,100)
IPO costs set against equity	-	(215,000)	-	-	(215,000)
Balance 31 December 2005	94,871	942,629	99,344	(158,614)	978,230

The notes on pages 15 to 31 form part of these financial statements

32Red Plc (formerly Trafalgar Betting & Gaming Limited)
Balance Sheet
as at 31st December 2005

	Notes	2005 £	2004 £
Assets			
Non-current			
Intangible assets	9	168,165	159,575
Property, plant and equipment	10	425,718	283,983
		<u>593,883</u>	<u>443,558</u>
Current			
Trade and other receivables	11	297,283	36,885
Cash and cash equivalents	12	1,471,027	1,286,975
		<u>1,768,310</u>	<u>1,323,860</u>
Total assets		<u><u>2,362,193</u></u>	<u><u>1,767,418</u></u>
Equity			
Equity attributable to shareholders of 32Red Plc			
Called up share capital	14	94,871	94,200
Share premium		942,629	855,800
Share option reserve		99,344	6,908
Retained earnings		(158,614)	561
Total equity		<u>978,230</u>	<u>957,469</u>
Liabilities			
Current			
Other employees obligations	13	60,128	126,053
Trade and other payables	13	1,323,835	683,896
Total liabilities		<u>1,383,963</u>	<u>809,949</u>
Total equity and liabilities		<u><u>2,362,193</u></u>	<u><u>1,767,418</u></u>

Approved by the board on 28th February 2006 and signed on its behalf by:

Simon Benjamin Derek Dimmer
 Director

Edward John Ware
 Director

The notes on pages 15 to 31 form part of these financial statements

32Red Plc (formerly Trafalgar Betting & Gaming Limited)
Statement of Cash Flows
for the year ended 31 December 2005

	2005	2004
	£	£
Operating activities		
Results for the year before tax	1,288,963	1,122,349
Amortisation	35,559	31,542
Depreciation	125,576	77,039
Increase in trade and other receivables	(260,398)	(4,433)
Increase in trade and other payables	574,014	224,544
Share options granted	93,122	6,323
Taxes paid	(225)	(225)
	<u>1,856,611</u>	<u>1,457,139</u>
Investing activities		
Additions to intangible assets	(44,149)	-
Additions to property, plant and equipment	(267,311)	(192,473)
Interest received	11,501	7,648
	<u>(299,959)</u>	<u>(184,825)</u>
Financing activities		
Interest paid	-	(10,000)
Shares issued	302,500	-
Share issue costs set against equity	(215,000)	-
Dividends paid	(1,460,100)	(786,570)
	<u>(1,372,600)</u>	<u>(796,570)</u>
Net increase in cash and cash equivalents	184,052	475,744
Cash and cash equivalents, beginning of year	1,286,975	811,231
Cash and cash equivalents, end of year	<u><u>1,471,027</u></u>	<u><u>1,286,975</u></u>

The notes on pages 15 to 31 form part of these financial statements

32Red Plc (formerly Trafalgar Betting & Gaming Limited)
Notes to the Financial Statements
for the year ended 31 December 2005

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union as issued by IASB. The accounting policies that have been applied in the opening balance sheet have also been applied through out all periods presented in these financial statements. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31st December 2005.

32Red Plc has adopted IFRS for the first time with effect from 1 January 2005. The financial statements for the year ended 31 December 2004 were prepared in accordance with Gibraltar GAAP. The financial statements for the year ended 31 December 2005 (including comparatives for the year ended 31 December 2004) were approved by the directors on the 28th February 2006.

Adoption of IFRS has had no effect on the underlying business and has had no effect on the results shown by the Balance Sheet, Income Statement, Statement of Changes in Equity or the Statement of Cash Flows for the year ended 31 December 2005 or the comparative figures for the year ended 31 December 2004. No adjustments have been processed in converting the comparative financial information from Gibraltar GAAP into IFRS. Nor has there been any changes to the accounting policies adopted by the company from the year ended 31 December 2004 to 31 December 2005. The only changes are presentational to the structure of the Balance Sheet, Income Statement and Statement of Cash Flows.

Intangible assets

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

Computer software licenses are capitalised on the basis of the costs incurred to acquire and install the specific software.

Costs that are directly attributable to the development of websites are recognised as intangible assets provided that the intangible asset will generate probable economic benefits and income streams through external use in line with SIC 32 "Intangible assets-website costs". Content development and operating costs are expensed as incurred.

Careful judgement by the directors is applied when deciding whether the recognition requirements for development costs have been met and whether the assets will generate probable future economic benefit. Judgements are based on the best information available at each balance sheet date. In addition, all internal activities related to the research and development are continuously monitored by the directors.

Costs associated with maintaining computer software and websites are expensed as incurred.

Amortisation is calculated using the straight line method, at annual rates estimated to write off the cost of the assets over their expected useful lives, as follows:

Website design and development	20%
Software licenses	over the period of the license

32Red Plc (formerly Trafalgar Betting & Gaming Limited)
Notes to the Financial Statements
for the year ended 31 December 2005

Property, plant and equipment

Property, plant and equipment is stated at acquisition 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 useful lives. The annual depreciation rates are as follows:

Motor vehicles	20%
Computer and Office Equipment	20% - 33%
Leasehold improvements	20%

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand as well as bank deposits and money held by processors.

Taxation

The company has been granted tax exempt status under the Companies (Taxation and Concessions) Ordinance. Under the terms of such status an annual charge of £225 is payable to the Government. This charge has been increased to £450 for the year ended 31 March 2006. Provided the company complies with the necessary criteria payment of such charges will satisfy the company's tax obligation in Gibraltar in relation to the year ended 31 December 2005.

Net gaming wins

Casino net gaming wins represents gaming receipts from clients less payments to clients within the financial year, adjusted for movements in player balances.

Poker net gaming wins represents the commission due to the company, rebate and tournament entry fees where the player has concluded his participation in the tournament.

32Red Plc (formerly Trafalgar Betting & Gaming Limited)
Notes to the Financial Statements
for the year ended 31 December 2005

Share based payments

All share based payment arrangements granted after 7 November 2002 are recognised in the financial statements. Share based payment arrangements granted before 7 November 2002 have not been recognised. The Company operates equity-settled share based compensation plans for remuneration of some of its employees.

All employee services received in exchange for the grant of any share based compensation are measured at their fair values. These are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share based compensation is ultimately recognised as an expense in profit and loss with a corresponding credit to the share option reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates.

No adjustment to expense recognised in prior periods is made if the number of share options ultimately exercised differs from the number originally estimated. Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are reallocated to share capital with any excess being recorded as additional paid-in capital.

Pensions

The Company does not operate or contribute to any pension schemes.

Foreign currencies

The functional currency of the company is £ sterling. The company undertakes transactions in £ sterling, US dollars, Canadian dollars and Euros.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Non-monetary assets and liabilities are translated using exchange rates prevailing at the date of the transactions.

All differences are taken to the income statement.

32Red Plc (formerly Trafalgar Betting & Gaming Limited)
Notes to the Financial Statements
for the year ended 31 December 2005

Leasing and hire purchase commitments

Rentals paid under operating leases are charged to income on a straight line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred. The company does not act as a lessor.

Financial instruments

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

Equity

Share capital is determined using the nominal value of shares that have been issued.

The share premium account includes any premiums received on the initial issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted from the premium paid.

Equity-settled share-based employee remuneration is credited to the share option reserve until related stock options are exercised. On exercise or lapse amounts recognised in the share option reserve are taken to retained earnings.

Retained earnings include all current and prior period results as determined in the income statement.

Trade and other payables

Trade and other payables are recognised and carried at their fair value at initial recognition.

Financial assets and liabilities

Assets

The company's financial assets comprise cash and cash equivalents and trade and other receivables which are classified as loans and receivables and are recognised at fair value.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any impairment is recognised in profit or loss.

Trade receivables are provided against when objective evidence is received that the company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write down is determined as the difference between the asset's carrying amount and the present value of the estimated future cash flows.

Liabilities

The company's financial liabilities comprise trade and other payables and are recognised when the company becomes party to the contractual agreements of the instrument.

All interest and related charges are recognised as an expense in the income statement.

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Segment information

A business segment is a distinguishable component of the company that is engaged in providing an individual product or service 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 company 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 company has determined that its primary reporting format is the business segment and that its secondary format is the geographical segment.

Use of estimates

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

The directors have taken the view that half of the IPO fees paid to the reporting accountants and nominated advisors relate directly to the issue of new shares.

The directors believe the models and assumptions used to calculate the fair value of the share based payments, outlined in note 17, are the most appropriate for the company.

2	Operating result	2005	2004
		£	£
	This is stated after charging/(crediting) :		
	Auditors remuneration - audit fees	30,000	10,000
	Depreciation of owned property, plant and equipment	125,576	77,039
	Amortisation of other intangible fixed assets	35,559	31,542
	IPO fees (including fees paid to auditors for non audit services)	718,414	-
	Operating lease rentals	25,244	19,103
	Foreign exchange gains	(22,831)	(7,835)
		<u><u> </u></u>	<u><u> </u></u>

Amortisation and depreciation are charged to administrative expenses.

Auditors remuneration in respect of IPO fees incurred during the period were £129,376 (2004: £ nil). Half of these costs have been charged to the income statement and half have been offset against equity.

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3 Segment information	2005	2004
	£	£
Business segment		
The Company has two business segments and performance can be analysed as follows:		
Casino		
Net gaming wins	<u>8,929,140</u>	<u>5,676,952</u>
Segmental gross profit before marketing costs	<u>5,139,083</u>	<u>3,191,636</u>
Poker		
Net gaming wins	<u>841,630</u>	<u>188,925</u>
Segmental gross profit before marketing costs	<u>469,077</u>	<u>94,399</u>
Consolidated		
Net gaming wins	<u>9,770,770</u>	<u>5,865,877</u>
Gross profit before marketing costs	5,608,160	3,286,035
Marketing costs	(2,118,289)	(1,315,189)
Administration expenses	(2,223,739)	(857,472)
Other operating income	22,831	8,975
Operating Result	<u>1,288,963</u>	<u>1,122,349</u>

The Directors consider that it is neither possible nor meaningful to distinguish aggregate marketing costs, administration expenses or other operating income between the two business segments.

Aggregate net assets are split between the two business segments as follows:

	2005	2004
	£	£
Casino		
Trade and other receivables	276,537	34,885
Cash and cash equivalents	1,342,252	1,273,263
Trade and other payables	<u>(833,435)</u>	<u>(623,123)</u>
	<u>785,354</u>	<u>685,025</u>
Poker		
Trade and other receivables	20,746	2,000
Cash and cash equivalents	128,775	13,712
Trade and other payables	<u>(490,400)</u>	<u>(60,773)</u>
	<u>(340,879)</u>	<u>(45,061)</u>
Total aggregate net assets	<u>444,475</u>	<u>639,964</u>

Non-current assets are used by both business segments and an appropriate split is not available. Furthermore "other employee obligations" relate to both business segments equally and can not be split in a meaningful way.

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Geographical segment

The Company's performance can also be reviewed by considering the geographical markets in which the Company operates.

	2005	2004
	£	£
Net gaming wins by geographical market		
UK & Ireland	8,005,360	5,314,319
Europe	646,298	222,030
Rest of the World	1,119,112	329,528
	<u>9,770,770</u>	<u>5,865,877</u>

The Directors consider that it would not be meaningful to distinguish the aggregate net assets between the three geographical segments.

4 Finance income and costs

The following amounts have been included in the income statement for the reporting period presented:

	2005	2004
	£	£
Interest income from short term deposits	<u>11,501</u>	<u>7,648</u>
Interest paid on loans from directors	<u>-</u>	<u>10,000</u>

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5 Earnings per share

Basic earnings per share have been calculated by dividing the net results attributable to ordinary shareholders by the weighted average number of shares in issue during the relevant financial periods. On floatation each £1 share was split into 500 £0.002 ordinary shares.

The weighted average number of shares used for basic earnings per share amounted to 47,180,999 shares (2004: 47,100,000 restated).

To calculate the diluted earnings per share figure, the weighted average of employee share options expected to vest have been added. This number represents management's best estimate at the balance sheet date, which is also used for calculating employee payments relating to share based payment transactions. At 31 December 2005 1,735,500 shares (2004: 1,387,500 shares restated) were expected to vest.

	2005	2004
	£	£
Net profit attributable to ordinary shares	<u>1,300,239</u>	<u>1,119,771</u>
Weighted average number of ordinary shares:		
for basic earnings	<u>47,180,999</u>	<u>47,100,000</u>
for diluted earnings	<u>48,681,381</u>	<u>48,487,500</u>
Basic earnings per share	<u>0.028</u>	<u>0.024</u>
Diluted earnings per share	<u>0.027</u>	<u>0.023</u>
Weighted average number of ordinary shares for basic earnings	47,180,999	47,100,000
Weighted average options	<u>1,500,382</u>	<u>1,387,500</u>
Weighted average number of ordinary shares for diluted earnings	<u>48,681,381</u>	<u>48,487,500</u>

6 Staff costs

	2005	2004
	£	£
Wages and salaries	759,721	428,917
Social security costs	<u>33,311</u>	<u>15,687</u>
	<u>793,032</u>	<u>444,604</u>

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7 Taxation	2005	2004
	£	£
Tax on profit on ordinary activities	<u>225</u>	<u>225</u>

The company has been granted tax exempt status under the Companies (Taxation and Concessions) Ordinance. Under the terms of such status an annual charge of £225 is payable to the Government. This charge has been increased to £450 for the year ended 31 March 2006. Provided the company complies with the necessary criteria payment of such charges will satisfy the company's tax obligation in Gibraltar in relation to the year ended 31 December 2005.

	2005	2004
	£	£
Profit before taxation	1,300,464	1,119,997
Less : tax exempt profit	<u>(1,300,464)</u>	<u>(1,119,997)</u>
Taxable profit	<u>-</u>	<u>-</u>
Current tax charge	-	-
Tax exempt fee	<u>225</u>	<u>225</u>
Tax charge	<u>225</u>	<u>225</u>

8 Equity dividends	2005	2004
	£	£
Equity dividends on ordinary shares - interim paid	<u>1,460,100</u>	<u>786,570</u>

During 2005, the Company paid dividends pre IPO of £1,460,100 to its equity shareholders (2004: £786,570). This represents a payment of 3.08 pence per share (2004: 1.67 pence per share) based on the post IPO share division.

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9 Intangible assets

	Website Development	Software Licences	Total
	£	£	£
Cost			
At 1 January 2004	77,645	158,664	236,309
Additions	-	-	-
Disposals	-	-	-
At 1 January 2005	<u>77,645</u>	<u>158,664</u>	<u>236,309</u>
Additions	30,177	13,972	44,149
Disposals	-	-	-
At 31 December 2005	<u>107,822</u>	<u>172,636</u>	<u>280,458</u>
Amortisation			
At 1 January 2004	21,258	23,934	45,192
Provided during the year	15,529	16,013	31,542
On disposals	-	-	-
At 1 January 2005	<u>36,787</u>	<u>39,947</u>	<u>76,734</u>
Provided during the year	18,363	17,196	35,559
On disposals	-	-	-
At 31 December 2005	<u>55,150</u>	<u>57,143</u>	<u>112,293</u>
Net book value			
At 31 December 2005	<u>52,672</u>	<u>115,493</u>	<u>168,165</u>
At 31 December 2004	<u>40,858</u>	<u>118,717</u>	<u>159,575</u>

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10 Property, plant and equipment

	Motor Vehicles	Computer and Office Equipment	Leasehold Improvements	Total
	£	£	£	£
Cost				
At 1 January 2004	-	239,335	-	239,335
Additions	<u>85,000</u>	<u>100,090</u>	<u>7,383</u>	<u>192,473</u>
At 1 January 2005	<u>85,000</u>	<u>339,425</u>	<u>7,383</u>	<u>431,808</u>
Additions	<u>25,000</u>	<u>228,883</u>	<u>13,428</u>	<u>267,311</u>
At 31 December 2005	<u>110,000</u>	<u>568,308</u>	<u>20,811</u>	<u>699,119</u>
Depreciation				
At 1 January 2004	-	70,786	-	70,786
Charge for the year	<u>7,667</u>	<u>67,885</u>	<u>1,477</u>	<u>77,029</u>
At 1 January 2005	<u>7,677</u>	<u>138,671</u>	<u>1,477</u>	<u>147,825</u>
Charge for the year	<u>22,010</u>	<u>99,444</u>	<u>4,122</u>	<u>125,576</u>
At 31 December 2005	<u>29,687</u>	<u>238,115</u>	<u>5,599</u>	<u>273,401</u>
Net book value				
At 31 December 2005	<u>80,313</u>	<u>330,193</u>	<u>15,212</u>	<u>425,718</u>
At 31 December 2004	<u>77,323</u>	<u>200,754</u>	<u>5,906</u>	<u>283,983</u>

11 Trade and other receivables

	2005	2004
	£	£
Other receivables	22,400	7,618
Prepayments and accrued income	<u>274,883</u>	<u>29,267</u>
	<u>297,283</u>	<u>36,885</u>

The fair value of these short term financial assets is not individually determined as the carrying amount is a reasonable approximation.

12 Cash and cash equivalents

Cash and cash equivalents include the following components:

	2005	2004
	£	£
Cash at bank and in hand	1,067,431	1,224,475
Cash held with processors	<u>403,596</u>	<u>62,500</u>
	<u>1,471,027</u>	<u>1,286,975</u>

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13 Current liabilities	2005	2004
	£	£
Trade payables	500,356	146,044
Other taxes and social security costs	60,128	126,053
Other payables	694,439	492,355
Accruals and deferred income	129,040	45,497
	<u>1,383,963</u>	<u>809,949</u>

The fair values of trade and other payables has not been disclosed as, due to their short duration, management considers the carrying values recognised in the balance sheet to be a reasonable approximation of their fair value.

14 Share capital			2005	2004
			£	£
Authorised:				
Ordinary shares of £0.002 each			<u>150,000</u>	<u>150,000</u>
	2005	2004	2005	2004
	No	No	£	£
Allotted, called up and fully paid:				
Ordinary shares of £0.002 each	47,435,500	94,200	<u>94,871</u>	<u>94,200</u>

All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of the Company. On the 23rd September 2005 the ordinary £1 shares were split for 500 £0.002 ordinary shares.

	2005	2004
	No	No
At 1 January	94,200	94,200
New shares from share split	47,005,800	-
	<u>47,100,000</u>	<u>94,200</u>
Share options exercised	100,000	-
Shares issued on IPO	235,500	-
At 31 December	<u>47,435,500</u>	<u>94,200</u>

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15 Operating leases

The Company's minimum operating lease payments are as follows:

	within 1 year £	1 to 5 years £	more than 5 years £	Total £
as at 31 December 2004	25,244	100,976	100,976	227,196
as at 31 December 2005	25,244	100,976	75,732	201,952

Lease payments recognised as an expense in the period amount to £25,244 (2004: £19,103). No sublease income is expected as all assets held under lease agreements are used exclusively by the Company.

Operating lease agreements do not contain any contingent rent clauses. None of the operating lease agreements contain purchase options or escalation clauses or restrictions regarding dividends, further leasing or additional debt.

16 Related party transactions

Relationships

During the year ended 31 December 2005 the Company purchased insurance for a value of £11,299 (2004: £603) from Callaghan Insurance Brokers Limited. Mr Bruno Callaghan is both a director of 32Red Plc and a director of Callaghan Insurance Brokers Limited.

During the year ended 31 December 2005, the Company purchased legal services from Hodgson Bilton to the value of £9,450 (2004: £3,025). Mr John Hodgson is both a director and company secretary of 32Red Plc and a partner in Hodgson Bilton.

Key management personnel

No key management personnel received any benefits during 2005 (2004: none) and there were no sums owing to or due from key management personnel as at 31 December 2005 (2004: £Nil).

Transactions with key management personnel

Key management personnel remuneration includes the following expenses:

	2005 £	2004 £
Short-term employee benefits		
salaries	287,220	146,368
social security costs	5,450	4,955
	<u>292,670</u>	<u>151,323</u>
Share based payments	15,505	4,235
	<u><u>308,175</u></u>	<u><u>155,558</u></u>

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17 Share-based payments

As at 31 December 2005, the Company maintained a share-based payment scheme for employee remuneration and a share option granted to other advisors of the company.

Within the employee remuneration scheme, for the options granted to vest, persons eligible to participate in this programme have to remain employed for the agreed maximum vesting period. The maximum vesting period is three years from each option grant date. Upon vesting each option allows the holder to purchase one ordinary share at an exercise price of £0.002. On IPO every £1 ordinary share was split for 500 £0.002 ordinary shares.

All share-based payments will be settled in equity. The Company has no legal or constructive obligation to repurchase or settle the options.

The share options and weighted average exercise price are as follows for the reporting periods presented:

	2005	2005	2004	2004
	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 January	1,387,500	0.025	812,500	0.025
Granted	520,500	0.295	575,000	0.025
Forfeited	(72,500)	0.295	-	-
Exercised	(100,000)	0.025	-	-
Elapsed	-	-	-	-
Outstanding at 31 December	<u><u>1,735,500</u></u>	0.295	<u><u>1,387,500</u></u>	0.025

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17 Share-based payments (continued)

During the year ended 31st December 2005, the company granted 72,500 share options to employees who have subsequently left the company. These options are therefore shown as forfeited options.

The Company has granted the following outstanding share options and exercise prices:

	2005	2005	2004	2004
	Number	Weighted average exercise price	Number	Weighted average exercise price
Exercise date				
2005	-	-	100,000	0.025
2006	337,500	0.295	337,500	0.295
2007	550,000	0.295	550,000	0.295
2008	848,000	0.295	400,000	0.295
	<u>1,735,500</u>		<u>1,387,500</u>	
			2005	2004
			Weighted average remaining contractual life Months	Weighted average remaining contractual life Months
Exercise date				
2004			45	30
2005			25	14
2006			14	6
2007			7	1
2008			3	-
2009			1	-

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17 Share-based payments (continued)

During 2005 options to a value of £123,720 were granted (2004: £79,623). The weighted average exercise price is calculated based upon an external valuation of the option scheme. The weighted average exercise price takes into account the assumptions included within the external valuation and thus differs from the exercise price of £0.002.

In total £93,122 of employee payment expense has been included in the income statement for 2005 (2004: £6,323).

In total £686 of share options have been exercised within the year ended 31st December 2005 (2004: £nil).

No liabilities were recognised due to share-based payment transactions.

The fair values of the options granted to employees were determined using the Binomial Model. Significant inputs into the calculation include:

Date of grant	Number granted	Share price £	Exercise price £	Expected life Years
November 2002	100,000	0.025	0.025	4.0
December 2002	25,000	0.025	0.025	4.0
December 2003	437,500	0.025	0.025	3.0
July 2004	25,000	0.150	0.025	2.5
October 2004	400,000	0.150	0.025	3.0
December 2004	262,500	0.150	0.025	4.0
July 2005	50,000	0.600	0.025	5.0
September 2005	162,500	1.300	1.270	3.5

Date of grant	Annualised volatility %	Risk free rate %	Dividend yield %
November 2002	32.8357	4.5476	2.5
December 2002	33.0287	4.1614	2.5
December 2003	29.7764	4.5469	2.5
July 2004	28.6720	5.0387	7.5
October 2004	26.9179	4.6186	7.5
December 2004	26.7127	4.5473	7.5
July 2005	27.7315	4.2415	5.0
September 2005	28.0326	4.1964	5.0

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17 Share-based payments (continued)

There were further options granted to other advisors where the fair values of the options granted were determined using the Monte Carlo model. Significant inputs into the calculation are as follows:

	Number granted	Share price £	Exercise price £	Expected life Years
Date of grant September 2005	235,500	1.30	1.27	5
		Annualised volatility %	Risk free rate %	Dividend yield %
Date of grant September 2005		28.0326	4.2096	5.0

The shares were listed on the 23rd September 2005 on the Alternative Investment Market at a strike price of £1.27 per ordinary share. The price varied between £1.27 and £1.30 during the year and was £1.30 at 31st December 2005.

18 Risk management objectives and policies

The Company is exposed to a variety of financial risks which result from both its operating and investing activities. The Company's risk management is coordinated to secure the Company's short to medium term cash flows by minimising the exposure to financial markets.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant risks to which the Company is exposed are described below:

Foreign currency risk

The directors see the overall financial risk arising from exchange rate fluctuations to the Company as minimal since the majority of receipts and payments are transacted in £ sterling. The Company has some, although deemed minimal, exposure to rate fluctuations in the US dollar and Euro. In future the Company intends to transact in further currencies such as the Japanese Yen.

Interest risk

The Company's exposure to interest rate risk is limited to the interest bearing deposit accounts in which the Company invests surplus funds. Bank deposit accounts are held at variable interest rates based on Barclays Bank base rate. Downside interest rate risk is minimal as the Company has no borrowings. Management monitors liquidity to ensure that sufficient liquid resources are available to the Company.

Credit risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet (or in the detailed analysis provided in the notes to the financial statements). Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.



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