

AIM – Travel and Leisure

Leisure & Gaming PLC*

Initiation of coverage

Highlights

- Leisure & Gaming now operates a network of over 1,000 sports and horse betting shops in Italy having added some 400 to the estate since the acquisition of Betshop Group in June 2006. This makes BetShop Group one of the country's largest independent operators, with impressive coverage of central and southern Italy. The company could be of potential interest to international gaming companies seeking to gain a foothold in Italy.
- BetShop also operates Betshop.com, a European sports betting website with circa 6,500 active users including affiliates who drive multiple users to the site.
- The combined Italian sports and horse betting market is estimated to be worth €4.1bn.
- The company's franchise model allows for rapid expansion with minimum investment, with the franchisee bearing the brunt of capital expenditure and operating costs. In H2 2006 Betshop generated revenues and net win ahead of management expectations.
- The Italian market has only recently been liberalised in an attempt by the government to raise revenues from what historically has largely been an illegal activity. Whilst this has attracted competitors into the fray, the liberalisation should also increase overall market demand allowing the company to benefit from its early mover advantage.
- Leisure & Gaming has in depth local knowledge of the Italian market. As such it has recently been awarded 47 new licences in an auction by the Italian authorities which will allow expansion of the product range.
- Leisure & Gaming previously operated US facing gaming websites. As happened to Sportingbet following the enactment of the Unlawful Internet Gambling Enforcement Act, the company felt it had no choice but to sell the US businesses for US\$1. With an estimated loss on disposal of US\$106m we forecast a US\$103.6m net loss for 2006.
- We forecast turnover of US\$230m in 2007 generating diluted EPS of 4.8c rising to 7.7c in 2008 giving P/E ratios of 4.9x and 3.1x respectively. On a 2007 basis this represents a discount of 72% to the sector.
- The company is considering roll out of the betting shop network into other countries such as Romania and Poland.

* Corporate Synergy Plc acts as Nominated Adviser and Broker to Leisure & Gaming Plc. Corporate Synergy Plc does not publish recommendations on companies with which it has a corporate relationship.

Forecast Table – Leisure & Gaming (actual) , Corporate Synergy Plc (estimates)

Y/e Dec	T/o (\$m)	Adj. Pre-Tax (\$m)*	Net Income (\$m)	Adjusted EPS (c) (Diluted)	PER (x)*	Div (c)	Yield (%)	Net Cash/(Debt) (\$m)
2005A	261.1	1.7	1.3	18	1.32	-	-	24.8
2006E	630.3	6.4	(103.6)	12.53	1.99	-	-	(1.94)
2007E	230.3	5.1	3.5	4.84	4.91	-	-	2.56
2008E	301.5	8.1	6.0	7.67	3.10	-	-	5.19

*Adjusted for exceptional items. US\$1.94/GBP exchange rate used where appropriate

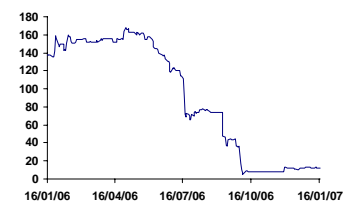
18 January 2007

*Corporate

Key Data

Price	12.25p
Shares in issue	64.445m
Market capitalisation	£7.89m
12 month price range	166.6p /5.72p
Ticker	LNG.L
Equity under option	2.4%
Free float	69 %

Chart



Source: Proquote International

Contacts

EQUITY ANALYST

Derren Nathan (020) 7448 4493
dnathan@corporatesynergy.co.uk

SALES

Robin Du Boulay (020) 77484 453
rduboulay@corporatesynergy.co.uk

David Dunne (020) 7448 4452
ddunne@corporatesynergy.co.uk

Blair Kierlander (020) 7448 4434
bkierlander@corporatesynergy.co.uk

Fong Li (020) 7448 4457
fli@corporatesynergy.co.uk

Nicholas Perin (020) 7448 4456
nperin@corporatesynergy.co.uk

Will Rogers (020) 7448 4451
wrogers@corporatesynergy.co.uk

30 Old Broad Street London EC2N 1HT

T: +44 (0)20 7448 4400

F: +44 (0)20 7448 4433

STX: 72222

E: info@corporatesynergy.co.uk

Registered Office: 30 Old Broad Street London EC2N 1HT

Registered in England No. 2617599. Member of the London S Exchange. Authorised and regulated by the Financial Services Authority

January trading statement reports encouraging trading from continuing business and reveals the award of 47 extra Italian gaming licences.

BetShop revenues ahead of management expectations

Summer acquisition leaves Leisure & Gaming with European focused sports betting and casino network

Trading Update

The company's trading statement of 9 January 2007 reported full year 2006 trading to be in line with market expectations. Our forecasts reflect this showing an underlying PBT pre exceptional items of US\$6.4m, and a total loss US\$103.6m after share option costs and exceptional items concerned with the hurried disposal of the company's US facing online gaming operations in October 2006.

Betting volumes at the company's network of franchised betting shops in Italy have improved with H2 2006 revenues substantially ahead of management expectations. Adverse sporting results meant net win margins were below those anticipated, but overall net win still exceeded management forecasts. However a decline in betting margin exacerbates the impact on gross margins as the 8.5% Italian betting tax is charged on turnover rather than net win. For accounting purposes betting tax is included in cost of sales along with commission shares with partners and affiliates. Hence gross profit is expected to fall short of management forecasts.

The company also reported the award of 47 new licences in Italy comprising 27 horse racing and 20 sports betting licences. Although the current network of 1,000 plus betting shops operates off one master licence the new licences will allow the introduction of televised racing/sports in some shops. This will complement a recent agreement with Global Interactive Gaming to integrate software into the Betshop platform that allows in-run wagering, i.e. wagering during a sporting event. The licences will also allow the introduction of new products such as scratch cards.

Background

Following the AIM floatation in September 2004 which raised £400k, the company proceeded to successfully execute its strategy of acquiring and operating betting and gaming businesses. By June 2006 the company had completed the acquisitions of five businesses and had transformed itself into a broad based operator of online sports betting, poker and casino websites with total annualised sales of over US\$600m. However until recently 80% of Leisure & Gaming's net win (total bets taken less winnings paid out to customers) was derived from the USA. Hence the recent US clampdown on online gaming which culminated in the passing of the UIGEA (Unlawful Internet Gambling Enforcement Act) by Congress in September 2006, left the company with little choice but to sell its US-facing businesses for the nominal sum of US\$1. The only alternative course of action, according to the Board, would have been the liquidation of the businesses at an estimated cost of US\$6m. This transaction was approved by shareholders at an EGM on 29 November 2006, six weeks after the sale of the businesses completed.

As a result of the sale a total of US\$7.35m in monies held on retentions in respect of deferred consideration and warranty provisions pursuant to acquisitions since the IPO, were paid back to the company. Furthermore US\$5.7m of deferred consideration potentially payable for the year end December 2006 in respect of the company's subsidiary VIP has been waived. However the company has incurred significant costs in connection with advice taken over UIGEA and we estimate the company's net debt position to be circa US\$2m net of funds held in escrow. This compares to a net cash position of US\$1.1m at the end of June 2006, which comprised US\$19.3m cash net of player funds and funds held in escrow less borrowings of US\$18.2m. The ongoing business is cash generative and we foresee the company returning to a net cash position by the end of 2007.

Acquisition of BetShop Group

Given the legislative changes in the United States the company's acquisition of BetShop Group (Europe) Limited (BSG) in June 2006 appears to have been extremely prudent. Indeed in Leisure & Gaming's interim results statement of 25 September 2006, the company warned of possible adverse developments in US gambling regulation, and highlighted the geographic diversity that BSG brought to its portfolio of gambling brands. BSG's principal business activities comprise the operation of a network of betting shops in Italy and a European facing sports betting website, Betshop.com.

The maximum consideration for BSG stands at £27.32m of which the initial consideration was £12.69m paid as a mixture of cash and shares. Up to £14.63m in deferred consideration is payable contingent of EBIT targets of £5.20m and £7.25m being achieved for the years ending 31 December 2007 and 2008 respectively. Should these be achieved

this puts the acquisition price on a 2008 EBIT multiple of 3.77x. The deferred consideration is payable by the issue of loan notes with an option to pay up to 50% by the issue of Ordinary Shares.

BSG was established by Gabriel Chaleplis in 1996. The business model has changed significantly since inception. The company started as a purely online Italian focused sports betting and casino operation. However in the middle of 2005 the Italian authorities moved to block unlicensed gaming sites. As BSG's master licence is valid for sports betting only and not casino games, Italian traffic to BetShop.com was blocked. In response Gabriel Chaleplis launched the BetShop Italia franchisee model which consists of partnered betting shops across Italy; this is described in more detail below. Given the change in revenue mix historical figures do not make meaningful comparisons going forward. For the year ending 30 June 2005 BetShop Group recorded revenues of £74.54m and EBIT of approximately £0.85 million. In the second half of 2005 BSG moved to reporting on a calendar year. In the three months to 31 March 2006, BSG recorded EBIT of approximately £0.42 million. BetShop has three trading divisions whose activities are summarised below.

BetShop's estate has expanded 66% in 6 months

BetShop Italia

BetShop Italia is rapidly expanding its network of over 1000 licensed betting shops and outlets in Italy. Some 400 outlets have been added to the group since the acquisition was completed in June 2006. This rapid rate of expansion has been facilitated by the company's low cost business model. Approximately 30% of the outlets are on non dedicated premises such as bars and cafés. Franchisees are generally attracted by word of mouth and at present the company is experiencing surplus demand for franchisee agreements. The company tends to attract local entrepreneurs with a good local knowledge. Franchisees pay an upfront sign up fee of just €600 and must fund any necessary capital expenditure (shop fitting etc) themselves. BetShop will provide branded signage. The franchisee covers all operating expenses of the unit such as rent and wages. Clearly the benefit for the company is the ability to grow the network quickly with minimal investment.

For the franchisee the arrangement removes a number of potential barriers to entry. Most importantly it removes the need to go through the bureaucratic process of licence application as all of BetShop Italia's outfits have until very recently, traded off one master licence. The franchisee also has instant access to the brand recognition that BetShop is building up and a tried and tested software platform. Furthermore it reduces the amount of working capital required, for although the franchisee has a number of start up costs to cover it is Leisure & Gaming that underwrites the sports book.

Typically the revenue share agreement entitles franchisees to between 30% and 50% of net win after tax (8.5% Italian gaming tax on turnover) and a 1.5% fee payable to a third party for the use of a software platform. Net win is defined purely as betting margin (bets taken less payout).

There are a number of characteristics of the business model in Italy that the Board believes lessen the underwriting risk and exposure to adverse sporting results which can severely damage profit visibility, when compared to traditional UK bookmakers. For example Ladbrokes' trading statement in November 2006, which referred to a number of adverse football and racing results in October, was widely interpreted by City commentators as a profits warning.

The features of the business model which help reduce this risk are as follows

- *Bet size and frequency* - Account holders at BetShop Italia outlets are limited to placing bets of no larger than €300. Punters are permitted to place an unlimited number of unique bets but are not allowed to repeat identical bets.
- *Bet type* – Approximately 88% of bets are 'accumulator' or 'combination' bets where punters will bet on a number of outcomes simultaneously. If just one predicted outcome does not transpire then the entire stake goes to the house. The high proportion of combination bets can be attributed to a cultural leaning in Italy towards impulsively going for the big win, as opposed to the approach of playing the percentages more commonly taken by British gamblers. Combination bets typically lead to high volumes of low stake bets. Secondly, the vast number of

combinations that can be achieved lessens the company's exposure to any one particular result.

- *Hedging via BetShop.Com* - The company offers the same odds across all of its shops. There is a team of risk managers who will change the odds and manage the book. For Betshop.com the company may have different odds, which allows a position to be hedged if need be. If for example there is a large position on the current Italian league leaders Inter Milan with Betshop Italia, the company can offer favourable odds on Fiorentina on Betshop.com and mitigate its exposure. However this can only be a partial hedge due to considerably lower betting volumes at BetShop.com.

Whilst we acknowledge the risk reducing characteristics of the business model, it is important to note that the company does not have as wide a spread of sporting events that are regularly speculated upon as some of the larger UK listed betting operators. As such its exposure to Italian football results is particularly high.

Approximately 75% of turnover is currently generated by BetShop Italia which also offers remote sports betting to the Italian market on Betshopitalia.com. The remaining 25% pertains to the business activities described below.

Betshop.com

BetShop.com is a multi lingual online gambling portal. It offers gamblers a full range of sports betting, casino and other games as well as the opportunity to bet on financial indices. Since access to the site was banned in Italy in mid 2005, Greece and Romania have emerged as the two biggest markets for BetShop.com. The company offers an affiliate programme whereby banners on an affiliate's website will channel traffic to BetShop.com. Affiliates can elect to receive either 4% on the turnover or 30% share of future profits generated by customers referred from their site. In Greece and Romania land based affiliates (internet cafés etc) are becoming a significant source of customers. According to the company Betshop.com had approximately 6,500 active customers at the end of 2006, but this included a number of affiliates. Therefore the total amount of end users is likely to be somewhat higher.

GoalsLive.com

GoalsLive.com is a web based sports results service which generates revenues from advertising (generally other online gambling companies). It is currently running at a small loss but fulfils the vital service of supplying results to BetShop.com and BetShop Italia.

Exploitation of intellectual property

In June 2006, the company completed the acquisition of certain assets from IGW Software NV for US\$4.9m. The consideration consisted of US\$3.85m cash net of US\$1.05m in receivables payable by IGW. The assets include the online software platform previously in use in the company's VIP operation and an upgraded version of the platform which was still under development at the time of purchase. Clearly now that the US businesses have been disposed of the strategic value of these assets has been greatly diminished.

On disposal of the US businesses Leisure & Gaming retained over 200 gambling related domain names. There may be some potential here to either sell some of them on or operate non US gambling activities on these web addresses.

The Italian market

Leisure & Gaming's recent successful application for 47 licences in Italy was part of a long and typically bureaucratic Italian tender process in which the government auctioned 17,000 betting licences (10,000 for horses and 7,000 for sports). These were then split between licences for dedicated and non dedicated premises. In light of the UIGEA in particular, international gaming companies have been extremely keen to gain a foothold in the rapidly liberalising Italian market.

Out of the British entrants, privately owned Gala Coral attained the most licence awards with 403 general sports betting licences. Gala paid an estimated £30m in total, working out at an average of £74k per licence. Ladbrokes was awarded 142 licences including 51 non dedicated sites. Ladbrokes estimates that, in terms of turnover, the legal Italian sports betting market is currently worth around €2 billion and the horseracing betting market €2.1

Combined Italian sports and horse betting market estimated at €4.1bn

billion. As at the time of application (August 2006) Ladbrokes estimated that there were only 770 licensed shops in Italy servicing a population roughly the size of the UK where there are some 8,000 betting shops. William Hill in association with its joint venture partner Codere SA (Codere) was awarded a total of 55 licences and a spokesman said of the opportunity that "essentially, this is a case of creating a new market or converting an illegal market into a legal market.". Athens Stock Exchange listed Intralot SA won a substantial number of the new nine year licences, receiving permission to operate 416 sports betting shops, nine horse betting outlets, and an additional 163 'corner-store' betting terminals. The company says it will invest €65m in setting up the retail shops and associated technical systems. Local contenders were also competing for the licences, and those who benefited include the Italian 'Lotto' operator Lottomatica who picked up 1,144 sports betting and 500 horserace licences.

Leisure & Gaming can take credit for succeeding alongside such big names in the industry, in what has been a typically bureaucratic Italian tender process. Many applications were rejected early on in the process. This success is testament to the company's knowledge of the local market and it is possible that Leisure & Gaming will pick up some extra licences should any other applicants fail to meet the deadline for payment. Given the company's franchise model we would expect the bulk of the cost of the new licences to be absorbed by the franchisees. At the licence auctions Leisure & Gaming applied only for licences for non dedicated premises as opposed to the more expensive standalone licences. Geographical restrictions in the new licensing regime mean that there are limits on how close shops can open to one another. This should to some extent protect the company from the competitive threat of new entrants.

The Board maintains that BetShop is the largest independent operator of horse and sports betting outlets in Italy, with an impressive geographical footprint over central and southern Italy. As such the company has an important head start over the new entrants into the market despite the resources at their disposal. Therefore we believe that the company may be an attractive strategic fit to any potential predator looking for a way to instantly increase market share in this increasingly competitive environment.

Management team

Following the sale of the US operations there have been some changes to the Board. Under AIM rules the disposal on 13 October to Stockdale, an entity controlled by Leisure & Gaming's former CEO Alistair Assheton, was deemed a related party transaction and Mr Assheton stepped down from the Board with immediate effect. Henry Birch, who previously stepped down in June 2005, was subsequently re-appointed to the Board to assume the position of CEO. Former finance director, Josh Joshi has stepped down, and the company will appoint a new CFO in due course.

Henry Birch, Chief Executive Officer

Henry Birch was a founding director of Leisure & Gaming plc. At Turner Broadcasting (and subsequently Time Warner), he helped launch their TV and other media properties throughout Europe. Subsequent to this Henry was business development director for a Bertelsmann digital music venture in Silicon Valley. In 2001 he joined BettingCorp, a developer and operator of betting and gaming services. As chief operating officer of BettingCorp he launched two interactive TV betting services, as well as managing their online gaming interests, and led the sale of BettingCorp to Liberty Media and Open TV in August 2003. Henry holds an MA from Edinburgh University and an MBA from Stanford Business School.

Philip Parker, Non-Executive Chairman

After graduating with a law degree from Cambridge University, Philip began his career in the computer industry first with IBM and then Unisys, where he spend 10 years in the United States. He returned to the UK in the early 1980s to run the European operations of Gulf & Western's software and training business, successfully consolidating its VAR channel. In 1987, he was appointed marketing director for the defence electronics division of Plessey plc, subsequently becoming corporate development director. Following Plessey's acquisition by GEC plc in 1989, Philip moved on to run North Sea Assets plc, a quoted oil services business which was acquired by Halliburton plc in 1995. Philip is currently chairman of Protec plc, a quoted electronic security business.

Gabriel Chaleplis – Managing Director of Betshop

Mr Chaleplis has over 15 years experience in the sports betting and gaming sector. He has formerly held senior management positions in leading UK and European companies. Prior to becoming Betshop's managing director, he was marketing and sporting director for Eurobet., which was subsequently acquired by Coral to form Coral Eurobet. A strong sign of his entrepreneurial flair and business acumen is shown in the company's growth, which in the past 4 years has reached an annual rate of 150% in terms of turnover and number of outlets tied up to Betshop's land-based network across Europe.

Benjamin Shaw, Executive Director

Benjamin was responsible for setting up the online gambling businesses at the Victor Chandler bookmaking group. He was involved as a principal in the consortium which acquired Zetters Group plc, where he became group managing director. In 2000, Benjamin left Zetters to set up a gaming business in Australia, which he sold to Tattersall's Group, a leading lottery operator, in 2001. Most recently, through a joint venture with N M Rothschild & Sons (Australia), Benjamin was involved in the consolidation of a number of online gambling businesses into Consolidated Gaming Corporation, now BetCorp Limited. He is a partner at Marwyn Capital.

Giles Willits, Non-Executive Director

Giles is Director of Financial Reporting at J Sainsbury plc having recently moved from Woolworths Group plc where he was Group Corporate Development Director and Director of Group Finance. During his time at Woolworths he was also Finance Director of Entertainment UK Limited and MVC Entertainment Limited. Giles is a qualified accountant who started his career with PricewaterhouseCoopers.

Forecasts

For 2006 we have based our forecasts on last week's trading statement indicating that full year trading was in line with market expectations. We anticipate turnover of US\$630m including a contribution of US\$65m from Betshop. This effectively comprises just six months of trading for Betshop which was acquired in June. We estimate a pre exceptional items operating profit of US\$5.9m. However this is insignificant given the expected US\$106m loss on disposal of the US facing operations. We have also assumed another US\$4m of exceptional costs relating to professional fees and the write down of the company's Acropolis casino investment which has also now blocked traffic to US customers. This gives a net loss of US\$103.6m or 165.2c. Based on the company's new banking facilities detailed in the circular of 6 November we estimate a year end net debt position of US\$2m.

The 2006 finals should draw a line under the unfortunate events of 2006. We assume that an average of 700 shops has given a US\$65m contribution to the second half of 2006. Over 2007 we assume over 1,000 shops to be trading. Given that many of the Betshop sites are less than a year old we expect customer numbers to increase. Furthermore the new licences allow for the introduction of a number of new products and we have assumed a 38% increase in the run rate of revenue per shop. This brings us to a total turnover for 2007 of US\$230m, which includes US\$31m from Betshop.com for which we have assumed improved revenue generation of 5%. 2007 results are likely to be H2 weighted as the roll out continues and the customer base grows.

We have assumed a net win margin of 26.5% although as demonstrated by the company's exposure to adverse gaming results in the latest trading statement, this is the least robust of our assumptions. However new products such as scratch cards should help improve net win, as for these games turnover is defined as net win hence giving 100% margins. We have assumed gross margins for the company as a whole at 21% of net win. This brings us to a 2007 net win of US\$61m and a gross profit of US\$12.8m. Given the company's relatively low cost franchisee model we have assumed modest operating costs of US\$7.5m. This gives operating profit of US\$5.3m leading to PBT of US\$5.08m, and net income of US\$3.46m, which translates to EPS of 4.84c per share. The rapid cash collection nature of the betting business means that the operating cash flows of US\$6.2m should be ahead of operating profits. Due to the franchisee arrangements we have assumed negligible capital expenditure. This leaves a net cash position of US\$2.56m. Based on 2007 results we have

US\$4.5m operating cash flows forecast for 2007

included £4.4m of deferred consideration payable in 2008, half in ordinary shares, and half in loan notes.

PBT growth of 73% to US\$8.5m forecast for 2008

Moving on to 2008 we have forecast further turnover growth of 31% bringing revenues up to nearly US\$302m. Betshop Italia's experience shows that it takes time for its shops to attract a installed base of core customers and hence we believe that it will take until 2008 for some of the 1,000+ estate to start making a meaningful contribution. We have kept net win and gross margins unchanged, and given the company's high operational gearing, have assumed operating cost increases of just 10% to US\$8.25m. This would allow PBT growth of 73% to US\$8.8m. However this translates to lower fully diluted EPS growth of 58% with EPS at 7.7c. This is as a result of shares granted to Gabriel Chaleplis for the 2007 earnout. In 2009 we would expect deferred consideration of £3.9m to fall due based on our 2008 forecasts.

Conclusion and Valuation

Based on a loose peer group average below Leisure & Gaming on a 2007 P/E ratio of 4.9x is trading on a 72% discount to the sector average. Given the events of 2006 concerning the company's disposal of the major part of its business for US\$1 this low rating is not surprising. There are other reasons for this rating gap which include

- A lack of significant public trading record for Betshop.
- A relatively low diversification of activities. Leisure & Gaming is particularly exposed to the Italian gaming market, and especially to adverse results in Italian football.
- Continuing uncertainty over the regulatory environment. Although the company expects no further actions in the US following the sale of its businesses this cannot be completely ruled out. Europe is not immune from regulatory risk either as was shown by the blockage of the Betshop.com URL in Italy. Indeed regulatory changes in Germany stifled the company's attempt to roll out its franchisee model there.

Sector comparisons

Company	Market Cap (£m)	Turnover (£m)	Forward PER (x)
Average for Sector	595.66	2,138.60	17.61
High of Sector	2,820.92	13,350.10	27.90
Low of Sector	0.45	0.93	6.85
Leisure & Gaming PLC	7.89	118.70	4.90
PartyGaming PLC	1,250.00	568.30	27.90
Northern Racing PLC	70.82	30.59	26.31
365 Media Group PLC	90.99	118.76	17.91
Playtech Ltd	600.04	27.67	17.56
Ladbrokes PLC	2,820.92	13,350.10	17.04
Sportingbet PLC	180.49	2,063.50	15.89
William Hill PLC	2,209.60	10,746.10	13.39
888 Holdings PLC	427.09	157.54	12.01
Media Corporation PLC	16.73	18.96	10.88
Sportech PLC	59.21	75.20	6.85
BETonSPORTS PLC	0.45	576.61	
betinternet.com PLC	16.00	67.57	
ubet2win PLC	1.24	0.93	

Source: Hemscott Company Guru

Investors must however be mindful that consensus forecasts for many of the former US facing peers such as 888 Holdings and PartyGaming may be over-inflated. This is because not all analysts covering the stocks have adjusted their forecasts accordingly post UIGEA.

Despite the above risks we believe that there is good potential for the rating gap to narrow once the profitable nature of the company becomes apparent to investors. With an intimate knowledge of the local market, and strong incentives to reach and exceed our targets with

Replication of business model in new territories could accelerate growth

respect to the earnout, we believe our forecasts are realistic. Further upside could come from the replication of the low cost high growth franchisee model in new markets. Currently Leisure & Gaming plc's operating companies hold a UK Bookmaker's Permit and betting and gaming licences from the Netherlands Antilles, Romania, Cyprus and Italy. The company is focused on working with governments and regulators to develop its franchised sports betting and gaming retail shop network in Central and Eastern European markets including Poland, the Czech Republic and Romania, as well as in Lebanon. Spain has recently made similar moves to liberalise sports betting, and there may be some opportunity in this market too.

Profit and Loss Account

Year to 31st December	2005A <i>16 Months</i>	H1A	H2E	2006E	2007E	2008E
US\$m						
Turnover						
Discontinued US Businesses	*	*	225.00	*	-	-
<i>Betshop Italia</i>					199.13	268.83
<i>Betshop.com/Goals Live</i>	*	*	*	*	31.12	32.68
Betshop Group Total	*	*	65.00	*	230.26	301.51
<i>Other</i>	*	*	0.40	*	-	-
Total Turnover	261.10	339.90	290.40	630.30	230.26	301.51
Net Win	23.30	45.70	36.30	82.00	61.02	79.90
<i>Margin %</i>	8.92%	13.45%	12.50%	13.01%	26.50%	26.50%
Other Income	0.30	1.10	1.10	2.20	-	-
Cost of goods sold	-10.20	-22.50	-20.20	-42.70	-48.20	-63.12
Gross Profit	13.40	24.30	17.20	41.50	12.81	16.78
<i>Margin %</i>	5.13%	7.15%	5.92%	6.58%	5.57%	5.57%
Operating Costs	-10.80	-16.80	-17.30	-34.10	-7.50	-8.25
Share option costs	-1.20	-0.90	-0.60	-1.50	-	-
Operating profit pre exceptional items	1.40	6.60	-0.70	5.90	5.31	8.53
Exceptional intangible asset write downs	-	-	-108.00	-108.00	-	-
Other exceptional operating costs	-	-	-2.00	-2.00	-	-
Operating profit	1.40	6.60	-110.70	-104.10	5.31	8.53
<i>Margin %</i>	0.54%	1.94%	-38.12%	-16.52%	2.31%	2.83%
Net interest	0.30	0.20	0.26	0.46	-0.23	0.31
PBT pre exceptional items	1.70	6.80	-0.44	6.36	5.08	8.84
PBT	1.70	6.80	-110.44	-103.64	5.08	8.84
Tax	-0.40	-0.30	0.30	0.00	-1.63	-2.83
Net Income	1.30	6.50	-110.14	-103.64	3.46	6.01
Dividends	-	-	-	-	-	-
<i>Weighted average shares in issue (m)</i>	13.42	60.46		62.73	71.40	78.33
<i>Weighted average shares in issue (diluted (m))</i>	13.91	62.03		62.73	71.40	78.33
Basic EPS (¢)	9.90	10.80		-165.21	4.84	7.67
Diluted EPS pre exceptional items & share option charge (¢)	17.97	11.90		12.53	4.84	7.67
Fully Diluted EPS pre exceptional items (¢)	17.97	11.90		9.34	4.84	7.67

* Historical breakdown not available

Leisure & Gaming Plc, Corporate Synergy Plc (forecasts)

Cash Flow Statement

Year to 31st December	2005A	H1A	H2E	2006E	2007E	2008E
	<i>16 Months</i>					
US\$m						
Cashflow from operations						
Operating profit	1.40	6.60	-110.70	-104.10	5.31	8.53
Working capital Movement	1.00	-0.90	-17.30	-18.20	0.92	0.82
Depreciation	0.20	0.80	-	0.80	-	-
Share Option Charge	1.20	0.90	0.60	1.50	-	-
Exceptional intangible asset write downs	-	-	108.00	108.00	-	-
Cashflows from Ops	3.80	7.40	-19.40	-12.00	6.23	9.34
Tax paid	-	-0.10	-0.60	-0.70	-1.50	-2.80
Cashflows from investing						
CAPEX	-1.60	-3.40	-	-3.40	-	-
Acquisitions	-31.90	-9.50	-0.20	-9.70	-	-4.23
Disposals	-	-	-	-	-	-
Deferred Settlement	-	-1.30	-	-1.30	-	-
Cashflow from investing activities	-33.50	-14.20	-0.20	-14.40	-	-4.23
Financing cashflows						
Dividends Paid	-	-	-	-	-	-
Issue of Shares	54.40	-	-	-	-	-
Interest	0.10	0.10	0.26	0.36	-0.23	0.31
Issue/repayment of Debt	-	18.20	-15.00	3.20	-2.40	-0.60
Cashflow from financing activities	54.50	18.30	-14.74	3.56	-2.63	-0.29
Change in net cash	24.80	-6.80	-19.94	-26.74	4.50	2.62

Leisure & Gaming Plc, Corporate Synergy Plc (forecasts)

Balance Sheet

As at 31st December	2005A	2006E	2007E	2008E
	<i>16 Months</i>			
US\$m				
Fixed Assets				
Total Intangibles	110.90	41.09	41.09	37.29
Property plant and equipment	1.40	0.10	0.10	0.10
	112.30	41.19	41.19	37.39
Current Assets				
Trade and other debtors	12.30	3.00	6.00	7.20
Cash and equivalents	24.80	1.26	3.36	5.39
Total	37.10	4.26	9.36	12.59
Current Liabilities				
Total	-16.20	-2.70	-6.75	-8.79
Net Current Assets	20.90	1.56	2.62	3.80
Long Term Liabilities				
Borrowings	-	-3.20	-0.80	-0.20
Deferred/contingent consideration	-17.40	-14.19	-14.19	-6.16
	-17.40	-17.39	-14.99	-6.36
Net Assets cf	115.80	25.36	28.82	34.82
<i>Net Cash/(Debt)</i>	<i>24.80</i>	<i>-1.94</i>	<i>2.56</i>	<i>5.19</i>

Leisure & Gaming Plc, Corporate Synergy Plc (forecasts)

Disclaimer

Corporate Synergy plc may have a number of specific conflicts of interest in respect of the matter covered by this report, such as having a corporate relationship with the company. This document should not be relied upon as being an impartial or objective assessment of the subject matter and is not deemed to be "objective research" for the purposes of FSA rules. This document has been issued and approved for distribution within the United Kingdom by Corporate Synergy Plc to investment professionals and financial institutions. Opinions expressed are our current opinions as of the date appearing and relate to this material only. We endeavour to update the material in this report on a timely basis, but regulatory, compliance, or other reasons may prevent us from doing so. Any opinions expressed are subject to change without notice. The information contained herein is compiled from a number of sources and is believed to be correct, but this cannot be guaranteed. This material should not be construed as an offer to sell or solicitation to buy any security or other financial instrument. The value of any investments referred to herein and the income derived there from may fall or rise against the investors' interest and past performance is not a guide to future performance. In relation to securities denominated in foreign currency, movements in exchange rates will have an effect on the value, either favourable or unfavourable. Any references to the impact of taxation are made in the context of current legislation and may not be valid should levels or basis of taxation change in the future. When we comment on AIM or OFEX shares you should be aware that because the rules for those markets are less demanding than the Official List of the UK Listing Authority the risks are higher. Furthermore the marketability of these shares is often restricted. Before acting on any advice or recommendations in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. Corporate Synergy Plc and/or its associated companies may from time-to-time provide investment or other services to, or solicit such business from, any of the companies referred to in this report. Accordingly, information may be available to Corporate Synergy Plc that is not reflected in this material and Corporate Synergy Plc may have acted upon or used the information prior to or immediately following its publication. In addition, Corporate Synergy Plc, the directors and employees thereof and/or any connected persons may have an interest in the securities, warrants, futures, options, derivatives or other financial instrument of any of the companies referred to in the report and may from time-to-time add to or dispose of such interests. No part of this material may be duplicated in any form or by any means. Neither should any of this material be redistributed without the prior consent of Corporate Synergy Plc. Corporate Synergy Plc accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any of this material. Corporate Synergy Plc is authorised and regulated by the Financial Services Authority and is a member of the London Stock Exchange.

Corporate Synergy Plc Conflict Management Policy is available at http://www.corporatesynergy.co.uk/Homepage/Conflict_Management/default.aspx