

Sportingbet.com (UK) PLC

Unaudited results for the six months ended 30 September 2001

Highlights

- Turnover £293.2m (2000: £114.1m).
- Gross margin £15.0m (2000: £3.5m), comprising £13.3m at 5.4% on sports betting (2000: £3.1m at 3.6%) and £1.7m at 3.6% on casino betting (2000: £0.4m at 1.4%).
- Administration expenses £14.6m (2000: £7.5m) at 4.9% of turnover (2000: 6.5%).
- Positive cashflow from operating activities for the six months of £0.3m (2000: outflow of £3.4m).
- Operating profit before non-trading and exceptional costs £0.4m (2000: loss £3.5m) before deduction of goodwill amortisation of £1.4m (2000: £0.4m) and exceptional costs of £0.5m (2000: £0.2m). Exceptional costs relate primarily to integration costs of the acquisition of Sportsbook in July 2001.
- Projected total integration costs are running considerably lower than the Board's previous estimate of £2m.
- Operating profit reduced by approximately £1.2m as a result of the postponement of sport for nine days following the events of September 11 in the United States of America. The £1.2m comprises a loss of £0.7m gross margin and an increase of £0.5m in marketing costs to re-stimulate activity.
- By the middle of October, trading in the Group's American business has recovered to levels higher than those seen immediately prior to September 11 and no long term effect is anticipated.
- There is no sign of any recessionary effects on the Company's trading activities in any of its markets.
- Continued progress in development of the business:
 - Integration of Sportsbook proceeding ahead of plan.
 - £3m per annum of cost savings from integration already achieved.
 - Sportingbet.com casino product into the European and Asian markets launched in July 2001.
 - Customer numbers up by 342,107 from 90,065 as at 31 March to 432,172 as at 30 September.
- Net cash of £16.0m (2000: £3.9m) as at 30 September 2001.
- Earnings per share (pre exceptional costs and goodwill) of 0.2p per share (2000: loss of 3.2p).

Sportingbet.com (UK) PLC chairman, Peter Dicks said: "We are delighted with the progress made in the six months to 30 September 2001. All of the Company's key performance indicators have progressed well, both from organic growth and through the acquisitions of Sportsbook and the Number One Betting Shop. In uncertain economic circumstances, the Company's business model has shown itself to be very resilient. The Board is particularly pleased with the speed of recovery from the effects of the cessation of sporting activity for nine days in the USA in September. The Board continues to approach the future with confidence."

Chairman's statement

Introduction

The six months ended 30 September 2001, incorporating the results of Sportsbook from 1 August 2001, represent a period of strong growth for the Company. Turnover, gross margin, customer numbers and market penetration have all improved considerably. Substantial progress has been made in the integration of Sportsbook following its acquisition and substantial cost savings have already been realised.

Financial results

The financial results for the six months ended 30 September 2001 show an increase in turnover to £293.2m (2000: £114.1m). Gross margin for the six months to 30 September 2001 was £15m (2000: £3.5m), representing 5.1% of turnover (2000: 3.1%). Gross margin on sports betting was £13.3m (2000: £3.1m) at 5.4% of turnover (2000: 3.6%) and gross margin on casino betting was £1.7m (2000: £0.4m) at 3.6% of turnover (2000: 1.4%). Casino margin includes fee income of £0.7m derived from the casino management agreement with Sportsbook.

The cost base of the Company as a percentage of turnover has continued to fall. Administration costs (excluding exceptional costs and goodwill) of £14.6m (2000: £7.6m) in the six months to 30 September 2001 represent 4.9% of turnover compared with 6.6% last year. The Board is confident that once the Sportsbook business has been fully integrated and the Company operates on one software platform costs as a percentage of turnover will continue to fall.

Administration expenses have been written off as incurred. Total marketing spend in the six months was £4.5m, and includes a one off marketing spend of £500,000 in September 2001 to encourage customers to start betting again when sporting events re-started in the USA. Other administrative costs comprise wage costs of £1.5m, information technology costs (including royalties paid to Sportsbook's software provider) of £2.3m, payments to marketing partners of £0.9m, banking fees of £1.5m, and infrastructure costs of £3m.

The operating profit for the six months ended 30 September 2001 was £0.4m (2000: loss £3.5m) before non-trading and exceptional costs, comprising £1.4m of goodwill (2000: £0.4m), and £0.5m of exceptional charges (2000: £0.2m). Exceptional charges relate to charges for payments made to Singinvests, the Company's main Asian marketing partner of £0.2m (2000: £0.2m) which will be fully expensed by March 2002 and £0.3m of integration costs (2000: £Nil) following the acquisition of Sportsbook.

Earnings per share pre exceptional costs and goodwill has improved to 0.2pence per share (2000: loss of 3.2p). On an actual, fully diluted basis, earnings per share has improved to a loss of 1.1 pence per share in the six months ended 30 September 2001, (2000: loss of 3.7p).

The Company's Balance Sheet showed £16m of cash balances (2000: £3.8m) at 30 September 2001. The Company generated an operating cash inflow of £0.3m for the six months to 30 September 2001 (2000: outflow of £3.4m).

Acquisition of Sportsbook

On 31 July 2001 the Company acquired the entire share capital of Sportsbook, a major US focused internet sports bookmaker, for an initial consideration of US\$51.3m (£35.9m) payable in cash, ordinary shares, convertible and non-convertible loan notes. The initial consideration comprised a payment of US\$38.8m (£27.1m) at completion and will be supplemented by a further payment of US\$12.5m (£8.8m) if the aggregate net profits for four consecutive quarters amount to US\$6.0m (£4.2m).

The integration of Sportsbook into the Company has proceeded better than expected. The banking infrastructures of the two businesses were merged within the first 30 days, realising £3m of annual cost savings for the Company whilst at the same time increasing the flexibility afforded to the Company's banking infrastructure. The marketing, finance and support functions have also been combined and are now fully integrated. Initial discussions have commenced with regard to integrating the Company's software platforms onto a single platform.

Prior to September 11 the Company's business in the USA was well ahead of last year. The cancellation of sporting events in September in both the USA and to a lesser extent in Europe caused a loss of turnover in September of approximately £13 million and a consequent loss of margin of £0.7m. In addition, when sporting events restarted, the Company made a decision to increase its marketing expenditures to incentivise customers to redeposit funds and continue the high levels of betting seen up to 11 September. The cost of this one off incentive was £0.5m.

The Board is pleased to report that trading in the USA had by the middle of October returned to levels well above last year and above the levels seen prior to 11 September.

Operating performance

In the six months ended 30 September 2001, customer numbers have risen by 342,107 from 90,065 at 31 March 2001 to 432,172. Of this growth, 311,002 has arisen from the acquisition of Sportsbook and 31,105 from organic growth. Of the growth through acquisition, 302,122 were customers in AMER (Americas) and 8,880 were customers in EMEA (Europe, Middle East and Africa). No customers were acquired through acquisition in AA (Asia and Australia).

The breakdown of customers by region:

CUSTOMER NUMBERS					
Region	30 Sep 00	31 Dec 00	31 Mar 01	30 Jun 01	30 Sep 01
AMER	35,637	40,092	44,372	47,435	363,895
EMEA	11,633	13,918	18,388	22,471	38,588
AA	3,323	4,592	27,305	28,866	29,689
Total	50,593	58,602	90,065	98,772	432,172

The betting activity of the Company's database has increased over last year in AA and EMEA and has remained constant in AMER. The Board is nevertheless pleased with the activity levels in AMER given the lack of sports events during nine days in September.

CUSTOMER ACTIVITY RATES		
Region	30 Sep 01	30 Sep 00
AMER	21%	21%
EMEA	22%	21%
AA	24%	22%

The activity rates as defined by the Company are the percentage of customers who have placed a bet in the last three months. On a monthly basis, activity rates range from 9% to 12% out of season, and 11% to 17% in season.

Risk Management

The Company has maintained its policy of a controlled approach to risk management. Nevertheless, the Company has seen a rise in spend per head in each of its three operating regions during the six months ended 30 September 2001 as compared with the six months ended 30 September 2000. This increase relates to an increase in the number of bets placed and is encouraging given the uncertain global economic environment in some of the world's economies. The increase in the number of bets placed is particularly strong in the Company's Australian business, which was acquired in March 2001.

SIX MONTH SPEND PER ACTIVE CUSTOMER (£)		
	30 Sep 01	30 Sep 00
AMER	13,223	10,622
EMEA	3,619	2,716
AA	29,344	15,101

The average bet size has remained stable both throughout the quarter and on a year on year basis. Importantly, the Board believe that there is no sign of any recessionary effect on the Company's trading activities in any of its markets.

BET SIZE PER ACTIVE CUSTOMER (£)		
	30 Sep 01	30 Sep 00
AMER	55	54
EMEA	50	32
AA	302	275

Gross margin percentages on sports and casino bets in the six months to 30 September 2001 have exceeded management expectations, particularly in the latter part of the six month period. Allowing for the lack of sports betting during part of September, margin from the recently acquired

Sportsbook business is both ahead of last year and ahead of budget. Margin from the Company's remaining business is in line with budget.

Product development

The Company is committed to offering its customers a premium quality product and continues to invest in its software platform. During the six months ended 30 September 2001, the Company has developed Chinese, Korean, Thai and Italian language websites all of which are now live. The Company has strengthened its horseracing product into the United Kingdom to increase the percentage of turnover emanating from Europe. Whilst there remains more work to be done in this area, the Board expects this product to be fully redeveloped by early 2002.

A tailored internet product for the Australian market has been developed and will be launched via sportingbet.com.au in early November 2001.

Marketing initiatives

The Company continues to pursue strategic marketing partners as one of its primary means of organic growth. It is increasingly clear that the provision of foreign language websites will not by themselves achieve significant penetration in to foreign markets without the support of a well established and respected marketing partner who are both locally based in the country and have established routes to market in that country.

This model has been applied to the Company's Turkish activities through its partnership with Superbahis, and these activities are ahead of management expectation. No significant progress has, however, been made in Japan and the Company is seeking additional marketing partners to supplement its existing relationship with J-Craft.

The Company's partnership with Singinvests has also performed well in the six months ended 30 September 2001.

In April 2001 the Company signed an exclusive five year contract with Ozmosa Ltd, which has a network of sales agents in South East Asia. Whilst initially this partnership started well, growth has slowed in recent weeks. The Company, together with Ozmosa is exploring new initiatives to reverse this trend.

The provision of "white-label" services such as the arrangement with Ozmosa where Sportingbet's software and risk management services are provided as the back end to a marketing partner's front end branded website is becoming an attractive proposition to the market place. The Company is in discussion with a number of interested parties who are seeking to obtain similar services. The Board is increasingly of the view that the Company's in-house flexible software platform provides a unique opportunity for established brands to enter the sports betting market with ease.

Regulatory developments

The Directors believe that operating from a well-respected regulatory environment is key to attracting a global customer base. The Board places strong emphasis on ensuring that the Company conducts its affairs appropriately in those jurisdictions within which the Company operates, and seeks to comply with all route to market legislation across the world, with the highest standards of scrutiny and integrity.

In America the Company only advertises in those states where it is legal to do so, but specifically does not advertise directly into those states such as New Jersey where it is not legal to do so. Sportingbet does not take any bets in America. All bets from American customers are transacted in Alderney (Sportingbet.com) and Antigua (Sportsbook). Sportingbet understands that the Attorney General of New Jersey has filed civil actions against a number of internet-based sports betting operators, including Sportingbet and Sportsbook. Sportingbet cannot confirm the nature of these actions since it has not been served with any Court papers. However, since Sportingbet does not have any U.S.A. subsidiaries or physical operations, personnel or other assets within the United States, the Company believes that the State of New Jersey lacks jurisdiction to bring or enforce any such actions against Sportingbet or its subsidiaries.

In Australia, the Company has now formally applied for an onshore licence with its preferred State. A decision on the Company's application is expected shortly.

Outlook

During the first six months of the current financial year, the Company's key performance indicators have continued to make encouraging progress and the Company's financial performance is in line with management's expectations. The integration of the recently acquired Sportsbook is proceeding well and the Board is pleased with this business, its management team and the growth opportunities it presents.

The third quarter of the financial year is the busiest trading quarter for the Company. Financial performance in the first month of this quarter has been strong. The Board is particularly pleased with the performance of its American business where turnover has recovered to levels above that seen immediately prior to September 11.

Over the last twelve months, the Group has put in place much of the infrastructure necessary to exploit the global sports betting opportunity. This will enable Sportingbet to leverage its highly scaleable business model and secure the long term potential of the business. The Board remains confident that the Company has the business model to succeed in this aim and looks forward to achieving further progress during the forthcoming year.

Peter Dicks Chairman

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Sportingbet.com (UK) plc
Unaudited Consolidated Profit and Loss Account
Six months ended the 30 September 2001

	3 months 30 Sept 2001 £	6 months 30 Sept 2001 £	6 months 30 Sept 2000 £
TURNOVER - Continuing operations	122,658,141	234,158,556	44,861,183
- Acquisitions	58,995,451	58,995,451	69,214,327
	181,653,592	293,154,007	114,075,510
Cost of sales	(170,421,049)	(278,109,442)	(110,553,172)
GROSS PROFIT	11,232,543	15,044,565	3,522,338
Gross Profit %	6.2%	5.1%	3.1%
Administration expenses	(10,558,173)	(14,614,864)	(7,574,849)
Group Operating profits (loss) before exceptional items and goodwill amortisation	674,370	429,701	(3,463,583)
Exceptional costs	(376,187)	(501,188)	(225,000)
Goodwill amortisation	(801,589)	(1,363,572)	(363,928)
GROUP OPERATING LOSS	(503,405)	(1,435,059)	(4,052,511)
Interest receivable	38,787	128,386	63,135
Finance Costs - Interest payable	(170,105)	(326,497)	(99,433)
- Amortisation of loan note issue costs	-	-	(124,382)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(634,725)	(1,633,170)	(4,213,191)
Taxation	-	-	(511)
LOSS FOR THE FINANCIAL PERIOD	(634,725)	(1,633,170)	(4,213,702)
LOSS PER ORDINARY SHARE (ACTUAL)		(1.1p)	(3.7p)
EARNINGS PER SHARE (PRE EXCEPTIONALS AND GOODWILL)		0.2p	(3.2p)
	Six months to 30 Sept 2001	Six months to 30 Sept 2000	
1 Analysis of revenue by activity			
Sports Betting	247,047,333	87,038,739	
Casino Betting	46,106,674	27,036,771	
	<u>293,154,007</u>	<u>114,075,510</u>	
2 Analysis of revenue by region			
AMER	134,343,796	80,258,890	
EMEA	28,636,802	15,727,497	
AA	130,173,409	18,089,123	
	<u>293,154,007</u>	<u>114,075,510</u>	

Sportingbet.com (UK) plc
Unaudited Consolidated Balance Sheet
As at 30 September 2001

	6 months ended 30 Sept 2001 £	6 months ended 30 Sept 2000 £
FIXED ASSETS		
Goodwill	160,184,885	8,615,061
Tangible assets	2,849,168	1,574,384
	<u>163,034,053</u>	<u>10,189,445</u>
CURRENT ASSETS		
Debtors	7,814,838	3,883,037
Cash at bank and in hand	15,947,262	3,860,607
CREDITORS:		
Amounts falling due within one year	17,514,665	7,277,186
NET CURRENT ASSETS/(LIABILITIES)	<u>6,247,435</u>	<u>466,458</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	169,281,488	10,655,903
CREDITORS:		
Amounts falling due after more than one year	55,014,633	-
Convertible loan note	13,554,939	6,281,233
NET ASSETS	<u>100,711,916</u>	<u>4,374,670</u>
CAPITAL AND RESERVES		
Called up share capital	151,525	131,130
Shares to be issued	63,931,896	2,942,482
Share premium	48,210,130	11,263,453
Other reserves	257,756	257,756
Profit and loss account	(11,839,391)	(10,220,151)
EQUITY SHAREHOLDERS' FUNDS	<u>100,711,916</u>	<u>4,374,670</u>

Notes

1. The calculation of actual loss per share is based on the loss after tax of £1.6m (2000: loss after tax £4.2 m) and on 146,066,465 (30 September 2000: 113,883,865) ordinary shares, being the weighted average number of ordinary shares in issue.
2. There have been no material changes to the accounting policies of the Group as set out in 31 March 2001 financial statements.

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Unaudited Cash Flow statement
Six months to the 30 September 2001

	6 months ended 30 th Sept 2001 £
Cash inflow from operating activities	292,713
Returns on investment and servicing of finance	(34,863)
Acquisitions	(3,736,511)
Capital expenditure	<u>(457,148)</u>
CASH OUT FLOW BEFORE FINANCING	(3,935,808)
Financing	<u>7,799,722</u>
INCREASE IN CASH IN THE YEAR	<u><u>3,863,914</u></u>
RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET FUNDS	
Increase in cash in the year	3,863,914
Cash (inflow) / outflow from (increase) / decrease in debt	(6,250,156)
MOVEMENT IN NET FUNDS IN YEAR	<u>(2,386,242)</u>
Net funds at start of year	<u>5,553,348</u>
NET FUNDS AT END OF YEAR	<u><u>3,167,106</u></u>