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# Directors and Advisors

## DIRECTORS

P Dicks	Chairman
M Blandford	Managing Director
N Payne	Finance Director
C Walker	Operations Director
J Blower	Non executive
S O'Connor	Non executive
R Williams	Non executive

## SECRETARY

N Payne

## REGISTERED OFFICE

Level 6, Transworld House  
82-100 City Road  
London EC1Y 2BJ

## COMPANY NUMBER

3534726

## REGISTRARS

Capita IRG  
Balfour House  
390-398 High Road  
Ilford  
Essex IG1 1NW

## AUDITORS

BDO Stoy Hayward  
Chartered Accountants  
8 Baker Street  
London W1U 3LL

## SOLICITORS

Linklaters & Alliance  
One Silk Street  
London EC2Y 8HQ

## CORPORATE ADVISERS

Dresdner Kleinwort Wasserstein  
20 Fenchurch Street  
London EC3P 3DB

Daniel Stewart & Company  
17 St Helens Place  
Bishopsgate  
London EC3A 6DE

## PRINCIPAL BANKERS

Royal Bank of Scotland  
1 Threadneedle Street  
London EC3

National Westminster Bank Plc  
35 High Street  
St Peter Port  
Guernsey  
Channel Islands GY1 4BE

## STOCKBROKERS

Dresdner Kleinwort Wasserstein  
20 Fenchurch Street  
London EC3P 3DB

# Directors Report

The directors submit their annual report and audited Financial Statements of the Group for the year ended 31 March 2001.

## Principal activities

The principal activities of the Group are the operation of interactive licensed betting operations primarily over the Internet and telephone.

## Results and dividends

The results of the group for the year are set out on page 12 and show a loss for the year of £4,200,262 (2000: Loss of £5,007,016). The directors are unable to recommend a dividend.

## Review of the business and future developments

The Group operates internet and telephone betting facilities in respect of a wide variety of worldwide sporting events and casino gaming.

Sportingbet.com (Alderney) Limited, the Group's main trading subsidiary operates for the Americas, Europe, Far Eastern and Middle Eastern markets under a 5 year fixed term license from the State of Alderney in the Channel Islands.

During the year the Company completed two major acquisitions. These comprise Betmaker.com, a US sports betting and casino company based in Costa Rica and the Number One Betting Shop based in Vanuatu primarily serving the Australasian region.

A more detailed review of the business and future developments is given in the Chairman's Statement on pages 6 to 8.

## Directors

The following directors have held office during the year; and subsequently:

P Dicks	Chairman
M Blandford	Executive
N Payne	Executive (appointed 24 May 2000)
C Walker	Executive (appointed 11 June 2001)
P Jay	Non executive (retired 9 Nov 2000)
P Goodmaker	Non executive (retired 9 Nov 2000)
J Blower	Non executive
S O'Connor	Non executive (appointed 10 Nov 2000)
R Williams	Non executive (appointed 10 Nov 2000)

R Williams, S O'Connor and C Walker, having been appointed during the year will all seek re-election at the Annual General Meeting. N Payne will retire by rotation at this Annual General Meeting and, being eligible, will seek re-election. All executive directors have service contracts which are terminable by both parties on 6 months notice (such notice period to increase for both parties by one month for each complete year of service up to a maximum of 12 months).

## Directors' interests

The directors of the company during the year and their beneficial interests (unless otherwise stated) in the ordinary share capital of the company and options to purchase such shares arising from incentive schemes were as follows:

	Options	Shares
		Ordinary shares at 0.1 pence each At 31 March 2001
P Dicks	250,000	40,000
M P Blandford	-	25,155,173
N Payne	1,000,000	-
P Jay	50,000	-
P Goodmaker	50,000	251,920
J Blower	-	4,000,000
R Williams	-	10,000
S O'Connor	-	58,334
C Walker	250,000	-

	Options	Shares
		Ordinary shares at 0.1 pence each At 31 March 2000 or date of appointment if later
P Dicks	250,000	-
M Blandford	-	25,500,000
N Payne	-	-
P Jay	-	-
P Goodmaker	25,000	-
J Blower	-	4,000,000

J Blower's shares are held by JWB Marketing (UK) Limited, a company of which J Blower is a director and shareholder.

## Substantial shareholdings

On 27 August 2001 the following interests in 3 percent or more of the Company's existing ordinary share capital had been reported.

	Number of ordinary shares of 0.1 pence each	% of issued ordinary shares of 0.1 pence each
M & P Blandford	25,155,173	16.63%
Trophy Atkiengesellschaft	17,500,000	11.57%
GJW International Limited	15,000,000	9.92%
GJW Holdings Limited	10,015,380	6.62%
Vanuatu International Trust Company Ltd	6,706,600	4.43%
Nortrust Nominees Limited	5,650,616	3.74%
Chase Nominees Limited	4,908,400	3.24%

## Employees

The Group is committed to a policy of equal opportunity in matters relating to employment, training and career development of employees and is opposed to any form of less favourable treatment afforded on the grounds of disability, sex, race or religion.

## **Directors Report (continued)**

The group recognises the importance of ensuring employees are kept informed of the Group's performance, activities and future plans.

### **Payment of suppliers**

It is the policy of the Group that each company should agree appropriate terms and conditions for its transactions with suppliers by means ranging from standard written terms to individually negotiated contracts. Payments are normally made in accordance with these terms and conditions, provided that they have also been complied with by the supplier. All Group companies have complied with this policy during the year. At 31 March 2001 the Company trade creditors represented 37 days of purchases (2000: 42 days) and Group trade creditors represented 45 days of purchases (2000: 48 days).

### **Introduction of the Euro**

All relevant parts of the Group will be able to handle Euro transactions when required.

### **Auditors**

BDO Stoy Hayward have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

By order of the Board  
N Payne  
Director  
31 August 2001

## ***Directors' Responsibilities***

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state 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 group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Chairmans Statement

## Introduction

The twelve months ended 31 March 2001 represented a year of strong progress for Sportingbet.com (UK) plc ("Sportingbet"). The Company's key performance indicators have all improved and the Company has generated a large rise in customer numbers, turnover and gross margin. Sportingbet now has customers from 104 countries who bet in 24 currencies and its product is offered and traded in six different languages.

Underpinning this progress has been the strategic acquisitions of two substantial sports betting businesses, Betmaker.com, which serves the American market and the Number One Betting Shop Ltd, which principally serves Australia.

Sportingbet now has an operating presence in each of the main time zones of the world, with a large portfolio of customers in each. The scale of operations has created a more balanced portfolio for risk management which in turn has led to improved margins, notably in the fourth quarter of the financial year.

## Financial results

The financial results for the twelve months ended 31 March 2001 show an increase in turnover to £324.7m (2000: £27.4m). Of this, £129.8m (2000: £27.4m) arose through organic growth and £194.9m (2000: £nil) from acquisitions. Gross margin for the twelve months was £14.7m (2000: £0.8m), representing 4.5% of turnover (2000: 3.1%). The sports betting margin improved by 2.5%, from 3.1% to 5.6%, on sports betting turnover of £235.2m (2000: £27.4m).

The cost base of the Company as a percentage of turnover has fallen substantially during the year. Administration costs (excluding exceptional costs and goodwill) of £16.7m (2000: £4.1m) in the twelve months to 31 March 2001 represent 5.2% of turnover as compared with 14.9% last year. During the year, the Company has continued its conservative accounting policy of writing off the vast majority of expenditure on software development, £3.6m, and all of marketing expenditure, £3.5m. The balance of costs comprise wage costs of £5.5 million, payments to marketing partners of £1.5 million and infrastructure costs of £2.6 million. The scalability of the Company's cost model is such that costs as a percentage of turnover are expected to continue to fall significantly in the forthcoming year.

The operating loss for the twelve months ended 31 March 2001 was £2.1m (2000: Loss of £3.3m) before non-trading and exceptional costs, comprising £1.0m of goodwill and £0.5m of charges for payments made to Singinvests, the Company's main Asian marketing partner. The costs of raising funds through the issue of a £6.5m three year loan note in August 2000 have been fully amortised in the year in accordance with FRS4 and a charge of £0.4m was incurred.

The financial results for the three months ended 31 March 2001 show a significant increase in turnover to £106.8m which together with the strong growth in the sports gross margin percentage generated an operating profit of £0.9m (2000: Loss

of £0.7m) for the quarter. This operating profit is stated before charging non-trading and exceptional costs which comprise £0.4m of goodwill on acquisitions and a £0.1m charge in respect of payments made to Singinvests for the provision of services to the Group.

Sportingbet was admitted to the Alternative Investment Market of the London Stock Exchange on 30 January 2001 and £15.4m (net of expenses) of expansion capital was raised at the time of admission. Of these funds, £5.0m was used as initial consideration for the acquisition of the Number One Betting Shop and a further £3.0m has been used since the year end for working capital expansion as a result of the acquisition.

The Group's Balance Sheet showed £34.4m of equity shareholders funds including £12.1m of cash balances at 31 March 2001. The Group had an operating cash outflow of £1.5m in the year (2000: £2.7m). The cash outflow in the year comprised a cash outflow of £3.1m in the first half of the year and a cash inflow of £1.6m in the second half of the year.

## Strategy

The Board remains focused on establishing Sportingbet as the leading retail online global sportsbook. Given that revenue growth is the main determinate of increasing profitability, the Group's business development strategy is focused on revenue generation through the acquisition of new customers and increasing the activity levels of the Group's existing customer base. The Board continues to view the pursuit of suitable acquisition opportunities, marketing and promotional activities and the further development of the Company's product offering to be of particular importance in delivering this strategy.

During the year the Company's physical operating presence in Alderney (serving Europe, Middle East and Africa, "EMEA") was augmented through two strategic acquisitions, Betmaker.com (serving America, "AMER") and the Number One Betting Shop (serving Australasia and eventually Asia, "AA"). Both acquisitions have added significant new customers, revenue and margin and have been integrated quickly, with little disruption. The Board believes that despite this significant expansion the Company's market share, in line with all Internet sports betting businesses, remains minimal, with scope for considerable further expansion.

## Operating performance

The Company's customer base has grown substantially during the year. Customer numbers have risen by 78,668 from 11,397 at 31 March 2000 to 90,065 at 31 March 2001. Of these 37,003 arose from organic growth and 41,665 through acquisition. Growth in the fourth quarter has been particularly strong with customer numbers rising to 31,463, of which 11,936 arose from organic growth, 1,527 from the acquisition of the database of Firststake plc in February 2001 and 18,000 from the acquisition of the Number One Betting Shop.

## Chairmans Statement (continued)

The breakdown of customers by region:

GROSS CUSTOMER NUMBERS					
Region	31 Mar 00	30 Jun 00	31 Sep 00	31 Dec 00	31 Mar 01
AMER	4,032	31,223	35,637	40,092	44,372
EMEA	6,214	9,012	11,633	13,918	18,388
AA	1,151	2,394	3,323	4,592	27,305
Total	11,397	42,629	50,593	58,602	90,065

The Board is pleased with the activity level of the Company's customer database during the year, where on average activity levels have been 1% higher than in the previous year. Further improvement is however possible and during the forthcoming year an increased proportion of the marketing budget has been set aside to enhance this key operating measure.

### Risk Management

The Company has maintained a consistent risk management policy throughout the year, notwithstanding the substantial growth in turnover and customer numbers. This policy is focused on attracting retail customers and not the more risky high spending clientele. The Company's in-house software platform monitors risk management carefully and procedures have been specifically developed with this in mind. The Board believes that this policy has been a significant factor in improving the quality of earnings as the Company's operating base has expanded and continually seek to improve its procedures wherever possible.

Customer spend has shown a steady increase, rising by circa 10% on average during the year. This increase is generally as a result of an increase in the number of bets placed as the Company widens its product offering and not an increase in the size per bet. Average bet size has remained stable. Within the USA, however, whilst overall turnover has increased per head over last year, the Company has seen a reduction in spend per head in its casino and an increase in its sportsbook. The Board believes that the Company's casino spend is now in line with that of pure play online casino businesses.

ANNUAL SPEND PER ACTIVE CUSTOMER		
	31 Mar 00	31 Mar 01
AMER	21,000	22,000
EMEA	4,600	5,100
AA	23,000	28,000

### Product development

The Company is committed to offering its customers a premium quality product and continues to invest in its software platform. During the year the Company has added bespoke, fit for purpose, Spanish, Japanese, Turkish and Chinese language sites to its product offering. This is in addition to the English and German sites previously offered. Korean, Thai and Italian web sites are in development and will be

launched in the near future. Further product enhancements are in progress and the Company expects to be able to offer its EMEA and AA customers an online casino product from the middle of summer of 2001.

New media channels continue to be developed which may in time provide the opportunity for large revenue streams for the Company. These include third generation mobile telephones and interactive television applications. The Company's software platform has been developed to take advantage of such opportunities. However, the penetration of these applications in global markets remains, in the Board's view, at least two years away. The Board nevertheless continues to closely monitor developments in these areas.

### Marketing initiatives

The Company has actively pursued marketing partnerships during the year as it sees this as one of the main ways to penetrate local markets. The marketing partnership with Singinvests, which went live in the summer of 2000, has performed well and has met expectations. The Company's activities in Asia were further strengthened in April 2001 with the signing of an exclusive five year contract with Ozmosa Ltd, a substantial network of sales agents in South East Asia. This opportunity will go live in early summer 2001, although revenue is not expected to flow to any degree until the start of the European Soccer Season in late August 2001. This new agreement complements the Company's agreement with Singinvests.

Marketing agreements with J-Craft (Japan) and Superbahis (Turkey) were also launched this year. These are attractive markets and the gross margin percentage from sports betting in these regions has to date been higher than most of the Company's other markets as a consequence of limited competition. The growth in the number of customers from Turkey has met the Company's expectation and has grown strongly in recent months. The number of customers from Japan is however presently behind expectation as a result of the country's unique culture taking longer to embrace the Internet as a means of sports betting. Although it will probably take longer to realise than originally anticipated, the significant growth potential of the Japanese market, particularly in light of the 2002 World Cup, remains highly attractive to the Company.

### Regulatory developments

The Directors believe that operating from a well respected regulatory environment is key to attracting an international customer base. Strong emphasis is therefore placed in ensuring that the Company conducts its affairs appropriately in those jurisdictions within which the Company operates. More importantly, the attitude of Governments and regulators in all of the principal areas where the Group has customers is closely followed.

It is clear that there is a debate with regard to Internet sports betting being conducted in many jurisdictions, particularly in

## Chairmans Statement (continued)

the U.K., U.S. and Australia. In the U.S., the recent move to allow intra-state online casino gaming in Nevada may indicate a shift in the mood of U.S. legislators towards regulation, though any firm decision is still some way off.

In the UK, July 2001 saw the Gambling Review Body publish their report into betting. At this stage the Board does not believe the review conclusions will have material implications for Sportingbet. In the recent budget the Government implicitly acknowledged the threat to traditional bricks and mortar sports betting providers not to mention the threat to betting tax receipts by the explosive growth of new off-shore providers.

Whilst the Board welcomes the UK Government's recognition of the significance of this industry and the importance of high quality regulation of the industry, the Board currently believes that the Group's business is such that shareholders' interests are best served by the business continuing to operate from the well regulated and tax free environment of Alderney.

### Management

The Board recognises the scale of change that the Company has undergone during the twelve months to 31 March 2001. The operating and financial dynamics of the business are materially different to those in place at the beginning of the year. In such circumstances, and mindful of the expected continued strong growth of the Company, the Board has placed considerable emphasis in ensuring that an appropriate quality management infrastructure is in place, not only in the central functions based in London, but also by local management who operate the time zone regional businesses in Alderney, Australia and Costa Rica.

As a result of this focus, the management strength of the Group has been substantially improved during the year and the Board is confident that the quality of personnel in place is befitting of the needs of the Company. In this regard, Colin Walker, formerly Managing Director of Sportingbet.com (Alderney) has been invited to join the Board as Group Operations Director with effect from 6th June 2001. Before moving to Sportingbet in January 2000, Mr. Walker spent seven years at Ladbrokes Racing, first as marketing director and then as divisional managing director of the telephone betting division.

### Treasury Policy

The board agrees and reviews policies and financial instruments for risk management. Authorities, procedures and reporting responsibilities are fully documented and are reviewed regularly. In order to minimise foreign currency exposure, cash is held in local currency accounts at floating rates of interest. The Group issues financial instruments to finance its operations when required. In addition, various financial instruments such as trade debtors and trade creditors, arise directly from the Group's operations. Further information on financial instruments is contained in Note 15 to the financial statements.

### Outlook

During the first quarter to date of the new financial year the Company's key performance indicators have continued to progress and the Company's financial performance is in line with management expectation. The integration of the Number One Betting Shop is proceeding well and the Board is particularly pleased with this business, its management team and the growth opportunities it presents.

Financial performance in the first quarter was materially better than last year. Shareholders should however be aware that the first quarter of the year is seasonally the quietest quarter for sports betting in all of the Company's main betting markets. The volume of major sports betting opportunities is lower than other quarters, and the margin earned on sports that are played is lower than in the busier seasons.

The Company continues to progress well in meeting its stated objectives. As the Company's profile increases around the world, the Company is being referred to by shareholders and in the media as "Sportingbet" and not "Sportingbet.com". The Board believes that the Company's name should be amended to recognise this and will accordingly be proposing a change of name to Sportingbet plc at its Annual General Meeting later in the year.

Over the last twelve months the Group has put in place much of the infrastructure necessary to exploit the global sports betting opportunity. The challenge going forward is to acquire and retain active, profitable, retail customers at sensible prices. 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 solid progress during the forthcoming year.

### Post balance sheet events

On 1 August 2001 Sportingbet.com (UK) plc acquired the whole of the issued capital of Internet Opportunity Entertainment Inc and Oak Ventures Corporation, together comprising the business of Sportsbook.com a major US focused internet sports bookmaker. Initial consideration of £35.9 million is payable in cash, convertible and non-convertible loan notes and shares. Additional performance related consideration of up to £93.7 million is payable over a period of up to 7 years dependant upon the profitability of the business.

Peter Dicks

Chairman



# Corporate Governance Statement

The Group has continued its commitment to high standards of corporate governance throughout the year and despite rapid growth, the Group has voluntarily progressed further towards substantially meeting the provisions set out in Section 1 of the Combined Code issued by the London Stock Exchange.

The Board is accountable to the Company's shareholders for good governance and the statement set out below describes how the principles identified in the Combined Code are applied by the Group.

## Directors

The Company is controlled through the Board of Directors which comprises four executive and four non-executive Directors. All non-executive directors are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement. As the Chairman is primarily responsible for the running of the Board, he ensures that all directors receive sufficient relevant information on financial, business and corporate issues prior to meetings. The Managing Director's responsibilities focus on coordinating the company's business and implementing Group strategy. All directors are able to take independent professional advice in the furtherance of their duties if necessary.

A formal schedule of matters is reserved for consideration by the Board, which meets at least twelve times each year. The Board is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It reviews the strategic direction of individual trading subsidiaries, their codes of conduct, their annual budgets, their progress towards achievement of these budgets and their capital expenditure programs. The Board also considers employee issues and key appointments and ensures that all Directors receive appropriate training on appointment and then subsequently as appropriate. All Directors, in accordance with the code will submit themselves for re-election at least once every three years.

The Board has established two committees, the Audit Committee and the Remuneration Committee, each operating within defined terms of reference. The minutes of standing committees are circulated to and reviewed by the Board.

A Nomination Committee has not been established at the date of this statement, primarily because there is a demonstrated level of sufficient independence at Board level by virtue of the strong composition of non-executive members. Nominations to the Board are considered by all members and an independent ballot takes place to ratify all new appointments. This policy will continue to be in force until the board determines that a separate Nomination Committee is warranted.

## Directors' Remuneration

The Remuneration Committee measures the performance of the Executive Directors and key members of senior management as a prelude to recommending their annual remuneration, bonus awards and awards of share options to the Board for final determination. The remuneration of Non-Executive Directors is determined by the Board. No Director plays a part in any discussion about his own remuneration. The Committee consults the Chairman and Managing Director about its proposals and has access to professional advice from inside and outside the Group.

The Committee determines an overall remuneration package for Executive Directors in order to attract and retain high quality management capable of achieving the Group's objectives.

## Going Concern

Having made appropriate enquiries and examined the major areas which could affect the Company's and the Group's financial position, the Directors are satisfied the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly they consider it appropriate to adopt the going concern basis in preparing the accounts.

## Communication

The Group places a great deal of importance on communication with its institutional and private investors and responds quickly to all queries received. There is regular dialogue with institutional shareholders as well as general presentations after the interim and preliminary results.

All shareholders have at least 20 working days' notice of the Annual General Meeting at which all Directors are introduced and are available for questions.

## Accountability and Audit

### (a) Internal financial controls

The Directors acknowledge their responsibility for the Group's system of internal financial control and risk management including their responsibility for taking reasonable steps for the safeguarding of the assets of the Group and for detecting and preventing fraud and other irregularities.

The respective responsibilities of the directors and the auditors in connection with the accounts are explained on page 5 and 11 respectively.

Monthly management information including financial accounts and key performance indicators have been defined and are produced on a timely basis for review by the Board.

Internal control procedures are progressively being developed and formalised to ensure that they sufficiently meet all requirements of the Group including the major acquisitions that have taken place over the last financial year.

## **Corporate Governance Statement** *(continued)*

The directors are responsible for the company's system of internal control which is designed to provide reasonable but not absolute assurance against material misstatement or loss. The key procedures that the directors have established to provide effective internal financial controls are as follows:

### **Financial reporting**

A detailed formal budgeting process for all Group businesses culminates into an annual group budget which is reviewed and approved by the Board. Results for the company and for its main constituent businesses are reported monthly against the budget to the Board and revised forecasts for the Company year are considered each quarter.

### **Financial and accounting principles**

A comprehensive financial and accounting reporting package sets out the principles of and minimum standards required by the Board for effective financial control. This package sets out the financial and accounting policies and procedures to be applied throughout the Group. Compliance with the policies and procedures set out in the reporting package is reviewed regularly.

### **Internal controls assurance**

In addition to the existing internal audit procedures, during the year senior executives have prepared formal board reports on the operation of those elements of the system for which they are responsible.

### **Capital investment**

The Company has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and stringent due diligence requirements where businesses are being acquired.

### *(b) Audit Committee and Auditors*

The Audit Committee meets periodically to review the adequacy of the Group's internal control systems, accounting policies and compliance with applicable accounting standards and for considering the appointment of external auditors and audit fees. The Group's auditors are invited to attend its meetings. The Audit Committee is authorised by the Board to investigate any activity within its terms of reference and obtain outside legal or other independent professional advice as necessary. The auditors and individual Board members are afforded the opportunity for separate meetings with the audit committee. The Audit Committee consists of all non-executive Directors.

# **Independent Auditors' Report**

## **To the shareholders of Sportingbet.com (UK) plc**

We have audited the financial statements of Sportingbet.com (UK) plc for the year ended 31 March 2001 on pages 12 to 28, which have been prepared under the accounting policies set out on pages 15 to 16.

### **Respective responsibilities of directors and auditors**

The directors responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards 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 United Kingdom Auditing Standards. Where a company is fully listed, there are additional responsibilities for auditors contained in the Listing Rules of the Financial Services Authority. Sportingbet.com (UK) Plc has voluntarily complied with the requirements of rule 12.43A of the Listing Rules in preparing its annual report. As auditors, we have agreed that our responsibilities in relation to the annual report will be those set out below.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. 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 or rule 12.43A of the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the group's compliance with the seven provisions of the Combined Code specified for review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all procedures or its risk and control procedures.

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

### **Basis of opinion**

We conducted our audit in accordance with Auditing Standards 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group'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 of the state of affairs of the Group and the Company at 31 March 2001 and of the result of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

### **BDO Stoy Hayward**

Registered Auditors and  
Chartered Accountants  
London

31 August 2001

# Consolidated Profit and Loss Account

for the year ended 31 March 2001

	notes	Before goodwill amortisation £	Goodwill amortisation £	Total 2001 £	2000 £
Turnover					
Continuing operations		129,812,760	-	129,812,760	27,420,456
Acquisitions		194,858,605	-	194,858,605	-
<b>Turnover</b>	1, 2	324,671,365	-	324,671,365	27,420,456
Cost of sales		(309,992,609)	-	(309,992,609)	(26,578,936)
Gross profit		14,678,756	-	14,678,756	841,520
Net operating expenses (including exceptional items)		(17,254,169)	(1,035,698)	(18,289,867)	(5,893,049)
Operating loss before exceptional items		(2,075,411)	(1,035,698)	(3,111,109)	(3,261,529)
Exceptional items	3	(500,002)	-	(500,002)	(1,790,000)
Operating profit/(loss)					
Continuing operations		(5,947,266)	-	(5,947,266)	(5,051,529)
Acquisitions		3,371,852	(1,035,698)	2,336,154	-
<b>Operating profit/(loss)</b>		(2,575,413)	(1,035,698)	(3,611,111)	(5,051,529)
EBITDA		(1,512,342)	-	(1,512,342)	(4,439,223)
Depreciation		(563,069)		(563,069)	(412,306)
Amortisation		(500,002)	(1,035,698)	(1,535,700)	(200,000)
Net interest payable	6	(586,897)	-	(586,897)	44,513
<b>Loss on ordinary activities before taxation</b>	4	(3,162,310)	(1,035,698)	(4,198,008)	(5,007,016)
Taxation	7	(2,254)	-	(2,254)	-
<b>Loss on ordinary activities after taxation</b>		(3,164,564)	(1,035,698)	(4,200,262)	(5,007,016)
<b>EBITDA per share</b>	8			(1.3p)	(3.8p)
Loss per share - basic	8			(3.6p)	(4.9p)

The notes on pages 17 to 28 form part of these Financial Statements.

All recognised gains and losses are included in the profit and loss account.  
There are no material differences on an historical cost basis to the amounts stated above.

# Balance Sheets

31 March 2001

	notes	Group		Company	
		2001 £	2000 £	2001 £	2000 £
<b>Fixed assets</b>					
Intangible assets - Goodwill	9	33,996,814	-	-	-
Tangible assets	10	2,590,607	742,100	220,323	-
Investments	11	-	-	37,808,245	42,248
		36,587,421	742,100	38,028,568	42,248
<b>Current assets</b>					
Debtors					
- amounts falling due within one year	12	7,004,900	513,300	737,256	4,813
- amounts falling due after more than one year		-	-	9,854,673	4,342,491
		7,004,900	513,300	10,591,929	4,347,304
Cash at bank and in hand		12,083,348	6,167,445	9,863,860	6,003,760
		19,088,248	6,680,745	20,455,789	10,351,064
<b>Creditors</b>					
Amounts falling due within one year	13	(9,122,707)	(1,871,450)	(3,235,070)	(205,288)
Net current assets		9,965,541	4,809,295	17,220,719	10,145,776
<b>Total assets less current liabilities</b>		46,552,962	5,551,395	55,249,287	10,188,024
<b>Creditors</b>					
Convertible Debt	14	(6,530,000)	-	(7,279,159)	-
Provisions for liabilities and charges	16	(5,616,035)	(105,000)	(5,616,035)	(105,000)
<b>Net assets</b>		34,406,927	5,446,395	42,354,093	10,083,024
<b>Capital and reserves</b>					
Called up share capital	17	136,244	111,304	136,244	111,304
Shares to be issued	18	8,371,551	1,000,000	8,371,551	1,000,000
Share premium	18	35,847,581	10,083,278	35,847,581	10,083,278
Other reserves	18	257,756	257,756	300,000	300,000
Profit and loss account	18	(10,206,205)	(6,005,943)	(2,301,283)	(1,411,558)
<b>Equity shareholders' funds</b>		34,406,927	5,446,395	42,354,093	10,083,024

The notes on pages 17 to 28 form part of these Financial Statements.

# Consolidated Cash Flow Statement

for the year ended 31 March 2001

	notes	2001 £	2000 £
Net cash inflow from operating activities	21	(1,535,685)	(2,698,086)
Returns on investments and servicing of finance	21	(586,897)	44,513
Acquisitions	21	(12,067,928)	-
Capital expenditure	21	(1,183,132)	(428,082)
Cash outflow before financing		(15,373,642)	(3,081,655)
Financing	21	21,289,545	9,320,281
<b>Increase in cash in the year</b>		<b>5,915,903</b>	<b>6,238,626</b>
Reconciliation of movement in net funds			
Increase in cash in the year		5,915,903	6,238,626
Cash outflow/(inflow) from movement in debt		(6,530,000)	208,209
<b>Movement in net debt</b>		<b>(614,097)</b>	<b>6,446,835</b>
Net funds/(debt) at start of year		6,167,445	(279,390)
<b>Net funds/(debt) at end of year</b>	21	<b>5,553,348</b>	<b>6,167,445</b>

The notes on pages 17 to 28 form part of these Financial Statements.

# Accounting Policies

## Accounting Policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The principal accounting policies are:

### Basis of consolidation

The consolidated financial statements incorporate the results of Sportingbet.com (UK) plc and all of its subsidiary and associated undertakings as at 31 March 2001 using the acquisition or merger method of accounting as required. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition.

### Merger accounting

Where merger accounting is used, the investment is recorded in the Company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration paid.

In the Group financial statements, merged subsidiary undertakings are treated as if they had always been a member of the Group. The results of such a subsidiary are included for the whole period in the year it joins the Group. The corresponding figures for the previous year include its results for that period, the assets and liabilities at the previous balance sheet date and the shares issued by the Company as consideration as if they had always been in issue. Any difference between the nominal value, of the shares acquired by the Company and those issued by the Company to acquire them is taken to reserves.

### Turnover

Turnover represents the amounts received in respect of bets placed on events and card games.

### Tangible Fixed Assets

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows.

Fixtures, fittings and equipment	25% on cost
Motor vehicles	25% on cost
Computer equipment	33% on cost

### Computer Software

It is the Company's practice to develop computer software for its operations. Computer software development costs have been capitalised and depreciated over three years to the extent that they relate to structured improvements for which further economic benefit will ensue. All other software development costs are written off to the profit and loss account as incurred.

### Valuation of investments

Investments held as fixed assets are stated at cost less any provision for impairment in value. Investments held as current assets are stated at the lower of cost and market value.

### Convertible debt

The premium payable on redemption of convertible debt (the supplemental interest) is charged annually to the profit and loss account over the term of the debt so that it represents a constant proportion of the balance of debt outstanding

On conversion the total value of the shares allotted is treated as the carrying value of the loan stock. The excess over the nominal value of the shares issued is taken to the share premium account.

### Finance costs

Finance costs associated with the issue of debt are deducted from the proceeds of the issue and charged to profit over the term of the debt.

### Financial instruments

In relation to the disclosures made in note 15 short term debtors and creditors are not treated as financial assets or financial liabilities.

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

### Goodwill

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. It is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life which ranges from 10 to 20 years. Impairment tests on the carrying value of goodwill are undertaken at the end of the first full financial year following acquisition; and in other periods if events or changes in circumstance indicate that the carrying value may not be recoverable.

## **Accounting Policies** *(continued)*

### Foreign currency

Foreign currency transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

The results of overseas operations are translated at the average rates of exchange during the year and their balance sheets translated into sterling at the rates of exchange ruling on the balance sheet date. Exchange differences which arise from translation of the opening net assets and results of foreign subsidiary undertakings and from translating the profit and loss account at an average rate are taken to reserves.

### Deferred taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes to the extent that it is probable that a liability or asset will crystallise.

### Liquid resources

For the purposes of the cash flow statement liquid resources are defined as current asset investments and short term deposits.

### Parent Company Profit and Loss Account

The Company has taken advantage of the exemption in The Companies Act 1985, Section 230, not to present its own profit and loss account. Included in the Group loss for the year is a loss of the parent company of £889,695 (2000 - Loss £1,411,588).



## Notes to the Financial Statements

### 1. Turnover and loss on ordinary activities before taxation

The Group's turnover and loss before taxation were all derived from its principal activity of offering, through licenses domiciled in respective global regions, interactive betting over the Internet and telephone. Of the Group's loss for the period £889,735 (2000: Loss of £1,411,558) has been dealt with in the Company's financial statements.

	Continuing Operations	Acquisitions	Total Year to 31 March 2001	Year to 31 March 2000
2. Segmental information	£	£	£	£
Turnover				
AMER	47,646,292	163,677,147	211,323,439	12,065,001
EMEA	42,124,113	-	42,124,113	9,871,364
AA	40,042,355	31,181,458	71,223,813	5,484,091
Total	129,812,760	194,858,605	324,671,365	27,420,456
Cost of sales	(124,382,517)	(185,610,092)	(309,992,609)	(26,578,936)
Gross profit	5,428,834	9,249,922	14,678,756	841,520
Net operating expenses				
Administration expenses - excluding goodwill amortisation and exceptional items	(10,877,506)	(5,876,661)	(16,754,167)	(4,103,049)
Administration expenses - exceptional	(500,002)	-	(500,002)	(1,790,000)
Net operating expenses (including exceptional items)				
pre goodwill amortisation	(11,377,508)	(5,876,661)	(17,254,169)	(5,893,049)
Administration expenses - goodwill amortisation	-	(1,035,698)	(1,035,698)	-
Net operating expenses	(11,377,508)	(6,912,359)	(18,289,867)	(5,893,049)
Operating loss	(5,948,674)	2,337,563	(3,611,111)	(5,051,529)
Net interest payable			(586,897)	44,513
Total			(4,198,007)	(5,007,016)
Net assets				
AMER			1,885,273	-
EMEA			30,899,536	5,446,395
AA			1,622,118	-
			34,406,927	5,446,395

The EMEA region comprises both costs from the Alderney based operation plus central costs.

## Notes to the Financial Statements (continued)

3. Exceptional items	2001 £	2000 £
Marketing and advertising	(500,002)	(1,200,000)
Software development costs	-	(590,000)
	(500,002)	(1,790,000)

Marketing and advertising costs represent amortisation costs associated with a contract for the provision of marketing the Group's services in the Far East.

4. Loss on ordinary activities before taxation	2001 £	2000 £
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Loss on ordinary activities before taxation is stated after charging:

Amortisation of goodwill	1,035,698	-
Depreciation on tangible fixed assets	563,069	412,306
Operating lease rentals - land and buildings	307,282	165,281
Auditors remuneration - audit services	85,000	35,000
- non-audit services	159,598	123,265

Auditors remuneration includes £10,000 (2000: £10,000) in respect of the company.

Remuneration of Auditors for non-audit work of £654,347 arising on the issue of shares has been charged to the share premium account.

5. Employees and staff costs	2001	2000
------------------------------	------	------

The average number of persons employed by the group during the year was as follows:

EMEA	106	39
AMER	142	-
AUS	29	-
	277	39

	2001 £	2000 £
Employee costs including directors were as follows:		
Wages and salaries	4,102,048	912,551
Social security costs	430,048	177,925
	4,532,096	1,090,476

	Basic salary 2001 £	Benefits in kind 2001 £	Fees 2001 £	2001 £	Total emoluments 2000 £
Directors' remuneration					
The emoluments of individual directors were as follows:					
M Blandford	123,858	-	-	123,858	77,443
N Payne	127,944	-	-	127,944	-
P Dicks	-	-	14,267	14,267	2,500
J Blower	-	-	15,000	15,000	13,750
P Jay	-	-	8,333	8,333	11,000
P Goodmaker	-	-	9,000	9,000	11,000
R Williams	-	-	7,821	7,821	-
S O'Connor	-	-	7,833	7,833	-
	251,802	-	62,254	314,056	115,693

## 5. Employees and staff costs (continued)

The share options held by directors during the year are set out as below:

	1 April 2000 number	Granted number	Exercised number	31 March 2001 number	Exercise price	Market price at the date of exercise	Date from which exercisable	Expiry Date
P Goodmaker	76,920	50,000	(76,920)	50,000	100.5p	145p	8 May 2002	8 May 2007
P Dicks	250,000	-	-	250,000	65.0p	-	13 Dec 2001	13 Dec 2006
N Payne	-	100,000	-	100,000	100.5p	-	8 May 2002	8 May 2007
N Payne	-	900,000	-	900,000	150p	-	1 Nov 2002	1 Nov 2007

No options lapsed during the year. The market price of shares at 31 March 2001 was 103.5p and the range during the financial year was 93.5p to 177.5p

## 6. Net interest payable

	2001 £	2000 £
Amortisation of loan note issue costs	(401,198)	-
Interest on convertible loan stock	(424,945)	-
Overdraft interest	-	(2,285)
Interest receivable	239,246	46,798
	(586,897)	44,513

## 7. Taxation

The group has no liability to corporation tax in any jurisdiction in which it operates due to the ongoing tax losses. Estimated unutilised tax losses available to the group were £2.6 million (2000: £1 million).

## 8. Loss per ordinary share

The calculation of basic loss per share is based on losses attributable to shareholders of Sportingbet.com (UK) plc of £4,200,262 (2000: £5,007,016) and the weighted average number of shares in issue during the period was 115,141,746 (2000: 103,757,933) ordinary shares.

No dilutive loss per share has been presented as the effect of the exercise of potential ordinary shares is anti-dilutive.

## 9. Intangible assets - Goodwill

	Cost £	Amortisation £	Net book amount £
New businesses acquired	35,032,512	(1,035,698)	33,996,814
At 31 March 2001	35,032,512	(1,035,698)	33,996,814

Intangible assets consists of goodwill arising on acquisitions since 31 March 2000. Goodwill is being amortised over estimated useful economic lives of 10 - 20 years.

Details of the acquisitions are set out in note 19.

## Notes to the Financial Statements *(continued)*

	Fixtures, fittings and equipment	Motor vehicles	Computer software	Computer equipment	Total
10. Tangible assets	£	£	£	£	£
Group					
Cost					
As at 1 April 2000	150,734	9,135	888,601	189,709	1,238,179
Additions	232,420	20,017	511,923	537,256	1,301,616
Subsidiary undertakings acquired	152,350	10,345	729,941	217,323	1,109,959
As at 31 March 2001	535,504	39,497	2,130,465	944,288	3,649,754
Depreciation					
As at 1 April 2000	48,170	638	388,601	58,670	496,079
Charge for the year	124,211	6,762	131,323	300,772	563,068
As At 31 March 2001	172,381	7,400	519,924	359,442	1,059,147
Net book value					
As at 31 March 2001	363,123	32,097	1,610,541	584,846	2,590,607
As at 31 March 2000	102,564	8,497	500,000	131,039	742,100

11. Investments	Shares in subsidiary undertakings
	£
Company	
Shares in subsidiary undertakings	
At 1 April 2000	42,248
Acquisition of subsidiaries in the year	37,765,997
At 31 March 2001	37,808,245

The following principal trading subsidiaries were wholly owned and held directly by the company at 31 March 2001 and are included within the consolidated financial statements for the year then ended.

Directly owned	Activity	Country of incorporation or registration
Sportingbet.com (Alderney) Limited	Licensed on-line and telephone betting	Alderney
Interactive Sports Limited	Licensed on-line and telephone betting	England
Fincorp Propiedades F.P. S.A.	Administrative services	Costa Rica
Capital Consulting Services N.V.	Internet based casino	Curacao
Sportingbet.com (Australia) Limited	Administrative services	Australia
Number One Betting Shop Limited	Telephone betting	Vanuatu

For all undertakings listed above, the country of incorporation is the same as the country of operation except for Sportingbet.com (Alderney) Limited which operates in both Alderney and Costa Rica.

12. Debtors	Group		Company	
	2001 £	2000 £	2001 £	2000 £
Due within one year:				
Other debtors	6,232,472	481,952	242,511	700
Prepayments and accrued income	772,428	31,348	494,745	4,113
	7,004,900	513,300	737,256	4,813
Due after one year:				
Owed by subsidiary undertakings	-	-	9,854,673	4,342,491
	7,004,900	513,300	10,591,929	4,347,304

The company has agreed to provide its subsidiary undertakings with such financial support as is necessary to enable the subsidiary to continue to trade and meet its obligations to third party creditors as and when they fall due.

13. Creditors	Group		Company	
	2001 £	2000 £	2001 £	2000 £
<b>Amounts falling due within one year</b>				
Trade creditors	602,353	438,583	198,824	-
Other creditors	7,167,778	607,637	2,245,488	-
Tax and social security	256,357	335,733	113,067	86,000
Accruals and deferred income	1,096,219	489,497	677,691	119,288
	9,122,707	1,871,450	3,235,070	205,288

14. Creditors	Group		Company	
	2001 £	2000 £	2001 £	2000 £
<b>Amounts falling due after more than one year</b>				
Convertible debt:				
Convertible redeemable				
Loan stock 2003 (unsecured)	6,530,000	-	6,530,000	-
	6,530,000	-	6,530,000	-
Other:				
Due to subsidiary undertakings	-	-	749,159	-
	-	-	749,159	-
Total	6,530,000	-	7,279,159	-

Interest of £424,945 was paid during the year in respect of the 10% convertible loan stock.

£6,530,000 10% convertible loan stock was issued at par on 27 July 2000 and is redeemable in 2003 or may be converted into ordinary share capital with an aggregate value equal to the market price of shares 30 days after listing subject to a minimum price of 150p. Issue costs of £401,198 have been deducted from the proceeds and have been amortised during the year over 8 months to 31 March 2001.

## Notes to the Financial Statements *(continued)*

### 15. Financial instruments

Financial assets		Floating rate financial assets	Financial assets on which no interest is received	Total
		£	£	£
<b>2001</b>				
Currency				
		9,997,010	-	9,997,010
		553,048	-	553,048
		17,346	-	17,346
		1,515,944	-	1,515,944
		12,083,348	-	12,083,348
<b>2000</b>				
Currency				
		6,086,199	-	6,086,199
		8,420	-	8,420
		44,328	-	44,328
		28,498	-	28,498
		6,167,445	-	6,167,445
Financial liabilities		Fixed rate financial liabilities		Total
		Weighted average interest rate %	Number of years for which rate is fixed	Amount £
				Floating rate financial liabilities £
				£
<b>2001</b>				
Currency				
		10	3	6,530,000
				-
				6,530,000
				-
				6,530,000
<b>2000</b>				
Currency				
		-	-	208,209
				71,213
				279,422
				208,209
				71,213
				279,422

Short term debtors and creditors are excluded from the above. Floating rate financial assets and liabilities are at interest rates determined in advance for periods of up to one month based on LIBOR equivalents. There are no fixed rate financial assets.

The fixed rate borrowings as at 31 March 2001 are in respect of the convertible redeemable loan stock 2003 as detailed in note 14.

There were no significant differences between book amounts and fair values of any of the Group's financial assets and liabilities.

Floating rate financial assets of £12,083,348 at 31 March 2001 (2000: £6,167,445) are held on deposits bearing at call rates. There are no other financial assets. Additional disclosures are given on page 8.

	Group and Company	
	2001	2000
	£	£
Contingent consideration	5,581,035	-
Social security costs	35,000	105,000
	5,616,035	105,000

The contingent consideration provision is in respect of future payments that may fall due in respect of the acquisition of the Number One Betting Shop. The payment is contingent upon certain profitability based criteria being met over the next 2 years. Estimates have been based on expected profits over the earn out period.

The provision for Social Security costs represents National Insurance that may fall due in respect of Ordinary share options issued post 5 April 1999.

## 17. Share capital

**Group and Company**  
**2001**                      **2000**  
**£**                              **£**

Authorised:

1,000 million (2000: 1,000 million) ordinary shares of 0.1p each	1,000,000	1,000,000
--	-----------	-----------

Allotted, issued and fully paid:

At 1 April 2000: 111,303,994 shares of 0.1p each	111,304	111,304
Issues in respect of placements	15,000	-
Issues in respect of acquisitions	9,194	-
Issues in respect of exercised share options	746	-

At 31 March 2001 - 136,244, 492 shares of 0.1p each	136,244	111,304
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On 1 April 2000 the company granted share options to one employee in respect of 14,894 ordinary shares at an exercise price of 117.5p per share, two employees in respect of 14,166 ordinary shares and 50,000 ordinary shares respectively each at an exercise price of 120p per share and two employees in respect of 11,000 ordinary shares each at an exercise price of 150p per share. All of the options are exercisable at any time between 1 April 2002 and 1 April 2007.

On 1 April 2000 746,269 ordinary shares were issued and allotted at a price of 134p per share as a signing on fee in respect of a marketing agreement entered into by the group, with Singinvests Holdings Limited.

On 10 April 2000 the company granted share options to two employees in respect of 15,000 ordinary shares each at an exercise price of 117p per share. All of these options are exercisable between 10 April 2002 and 10 April 2007.

On 1 May 2000 the company granted share options to three employees in respect of 15,000 ordinary shares each at an exercise price of 136p per share. All of these options are exercisable at any time between 1 May 2002 and 1 May 2007.

On 5 May 2000 investors subscribed for a total of 2,167,229 ordinary shares for cash at 145p per share, as part consideration for acquisition of the Betmaker Group.

On 8 May 2000 76,920 ordinary shares were allotted for cash at 6.5p per share following the exercise of an option which had previously been granted.

On 8 May 2000 the company granted share options to two employees in respect of 100,000 ordinary shares at an exercise price of 100.5p per share. The options are exercisable at any time between 8 May 2002 and 8 May 2007.

On 15 May 2000 the company granted share options to an employee in respect of 12,681 ordinary shares at an exercise price of 138p per share. The options are exercisable at any time between 15 May 2002 and 15 May 2007.

On 1 July 2000 the company granted share options to an employee in respect of 15,000 ordinary shares at an exercise price of 136p per share. The options are exercisable at any time between 1 July 2002 and 1 July 2007.

On 11 July 2000 the company granted share options to an employee in respect of 100,000 ordinary shares at an exercise price of 139p per share. The options are exercisable at any time between 11 July 2002 and 11 July 2007.

On 1 August 2000 the company granted share options to one employee in respect of 250,000 ordinary shares each at an exercise price of 150p per share and to two employees in respect of 33,333 ordinary shares each at an exercise price of 150p per share. All of these options are exercisable at any time between 1 August 2002 and 1 August 2007.

On 22 August 2000 500,000 ordinary shares of 0.1p each were allotted for cash at 6.5p per share following the exercise of options by two employees.

On 8 December 2000, following an agreement made between the Directors and N Payne on 1 November 2000, the company granted an option to N Payne in respect of 900,000 ordinary shares at an exercise price of 150p per share. The options are exercisable in whole or in part between 1 November 2002 and 1 November 2007 provided that, save for limited circumstances, at the date of exercise N Payne is a director or employee of the company. This option was not granted under the unapproved Share Option Scheme.

On 8 December 2000, following an agreement made between the Directors and each of P Jay and P Goodmaker (former non-executive Directors of the Company) on 8 May 2000, the company granted options to each of P Jay and P Goodmaker in respect of 50,000 ordinary shares at an exercise price of 100.5p per share. These options are exercisable in whole or in part between 8 May 2002 and 8 May 2007 and are not transferable or assignable. These options were not granted under the unapproved Share Option Scheme.

## 17. Share capital (continued)

On 8 December 2000, following an agreement made between the directors and ectwo.com plac on 1 August 2000, the company granted an option to ectwo.com plc in respect of 66,666 ordinary shares at an exercise price of 150p per share. The option is exercisable in whole or in part between 1 August 2002 and 1 August 2007.

On 8 December 2000, following an agreement made between the directors and each of C Butler and J Probert on 1 August 1999, the company granted options to each of C Butler and J Probert in respect of 100,000 ordinary shares at an exercise price of 65p per share. These options are exercisable in whole or in part between 1 August 2001 and 1 August 2006 and are not transferable or assignable.

On 7 February 2001 the company granted share options to an employee in respect of 50,000 ordinary shares each at an exercise price of 126p per share. The options are exercisable at any time between 7 February 2004 and 2011.

On 15 March 2001 6,706,600 shares were issued and allotted at a price of 93.5p per share to Vannatu International Trust Company Limited as part consideration for the acquisition of the Number One Betting Shop.

On 15 March 2001 184,400 shares were issued and allotted at a price of 93.5p per share to Rail Limited as part consideration for the acquisition of the Number One Betting Shop.

On 15 March 2001 68,000 shares were issued and allotted at a price of 93.5p per share to Cyberag Marketing Pty Limited as part consideration for the acquisition of the Number One Betting Shop.

On 15 March 2001 68,000 shares were issued and allotted at a price of 93.5p per share to Wayne Monaghan as part consideration for the acquisition of the Number One Betting Shop.

	Share premium account	Shares to be issued	Other reserve	Profit and loss account
	£	£	£	£
<b>18. Reserves</b>				
<b>Group</b>				
At 1 April 2000	10,083,278	1,000,000	257,756	(6,005,943)
Placing	18,000,000	-	-	-
Issue Costs	(2,934,712)	-	-	-
Acquisitions	9,684,015	8,371,551	-	-
Agency agreement	999,000	(1,000,000)	-	-
Employee share options	16,000	-	-	-
Retained profit	-	-	-	(4,200,262)
<b>At 31 March 2001</b>	<b>35,847,581</b>	<b>8,371,551</b>	<b>257,756</b>	<b>(10,206,205)</b>
<b>Company</b>				
At 1 April 2000	10,083,278	1,000,000	300,000	(1,411,588)
Placing	18,000,000	-	-	-
Issue Costs	(2,934,712)	-	-	-
Acquisitions	9,684,015	8,371,551	-	-
Agency agreement	999,000	(1,000,000)	-	-
Employee share options	16,000	-	-	-
Retained profit	-	-	-	(889,695)
<b>At 31 March 2001</b>	<b>35,847,581</b>	<b>8,371,551</b>	<b>300,000</b>	<b>(2,301,283)</b>



## 19. Acquisitions

The business and trading assets and liabilities of Betmaker, an online Sportsbook and Casino based in Costa Rica primarily servicing the US market, was acquired on 5 May 2000 and was accounted for as an acquisition in the following manner:

	Book value on acquisition £	Fair value adjustments £	Fair value to the group £
Tangible fixed assets	556,428	-	556,428
Debtors	1,254,291	-	1,254,291
Creditors	(1,121,267)	-	(1,121,267)
Provisions	(132,463)	-	(132,463)
	556,989	-	556,989
Goodwill			9,071,951
			9,628,940
Consideration comprises:			
Cash			4,810,939
Issue of ordinary share capital			4,818,001
Consideration (including expenses of £159,989)			9,628,940

The summarised consolidated profit and loss accounts of Betmaker for the periods immediately prior to its acquisition by the Group on 5 May 2000 are:

	31 week period ended 4 May 2000 £	Year ended 30 September 1999 £
Turnover	74,534,835	104,708,966
Gross Profit	4,621,019	7,914,483
Profit before taxation	1,931,342	3,624,828
Taxation	-	-
Profit after taxation	1,931,342	3,624,828

There were no other recognised gains or losses in these periods.

	Book value on acquisition £	Fair value adjustments £	Fair value to the group £
Tangible fixed assets	553,531	-	553,531
Debtors	2,055,759	-	2,055,759
Cash at bank	239,474	-	239,474
Creditors	(790,031)	-	(790,031)
	2,058,733	-	2,058,733
Goodwill			25,960,561
			28,019,294
Consideration comprises:			
Cash			7,496,463
Initial issue of ordinary share capital			6,570,245
Projected earn out - year 1			
- Cash			2,684,483
- Issue of ordinary share capital			4,026,724
Projected earn out - year 2			
- Cash			2,896,552
- Issue of ordinary share capital			4,344,827
Consideration (including expenses of £130,779)			28,019,294

## Notes to the Financial Statements *(continued)*

### 19. Acquisitions *(continued)*

Projected earn out payments due to the vendor are trading performance based payments that fall due on:

1. the earlier of the announcement of Sportingbet's audited financial results for the year ending 31 March 2002 and 30 June 2002; and
2. the earlier of the announcement of Sportingbet's audited financial results for the year ending 31 March 2003 and 30 June 2003.

The summarised profit and loss accounts of Number One Betting Shop for the periods prior to its acquisition by the Group on 14 March 2001 are:

	50 week period ended 31 March 2001 £	Year ended 31 March 2000 £
Turnover	176,535,512	129,028,051
Gross Profit	8,652,743	7,380,776
Profit before taxation	4,569,265	3,923,443
Taxation	-	-
Profit after taxation	4,569,265	3,923,443

There were no other recognised gains or losses in these periods

### 20. Commitments under operating leases

At 31 March 2001 the Group had annual commitments under non-cancellable operating leases as follows:

Land and buildings

	2001 £	2000 £
expiring within 1 year	315,443	138,948
expiring within 1 - 2 years	216,162	118,328
expiring within 2 - 5 years	584,772	-
	1,116,377	257,276

The leases are subject to periodic rent reviews.

### 21. Cash flows

#### (a) Reconciliation of operating loss to net cash flow from operating activities

	2001 £	2000 £
Operating loss	(3,611,111)	(5,051,529)
Amortisation - goodwill	1,035,698	-
- exceptional item	500,002	-
Depreciation	563,068	412,306
Increase in debtors	(3,181,550)	(471,601)
Increase in creditors - ordinary activities	3,156,604	1,212,738
- exceptional item	-	200,000
Unrealised translation differences	1,604	-
Shares to be issued in respect of exceptional item	-	1,000,000
Net cash flow from operating activities	(1,535,685)	(2,698,086)

The exceptional items had no cash flow impact during the year.

#### (b) Analysis of cash flows for headings netted in the cash flow statement

Returns on investments and servicing of finance

	2001 £	2000 £
Interest received	239,246	46,798
Interest paid	(826,143)	(2,285)
Net cashflow for returns on investments and servicing of finance	(586,897)	44,513

21. Cash flows (continued)	2001 £	2000 £
Acquisitions		
Purchase of subsidiary undertakings (note d.)	(12,307,402)	-
Cash acquired with subsidiary undertakings (note d.)	239,474	-
Net cash outflow for acquisitions	(12,067,928)	-
Capital expenditure		
Purchase of tangible fixed assets	(1,183,132)	(428,082)
Net cash outflow for capital expenditure	(1,183,132)	(428,082)
Financing		
Issue of share capital	18,000,000	10,188,110
Expenses paid in connection with shares issued	(2,867,309)	(659,620)
Convertible loan stock	6,530,000	-
Loan note issue costs	(373,146)	-
Director's loan	-	(208,209)
Net cash inflow from financing	21,289,545	9,320,281

(c) Reconciliation of net cash flow to movement in net funds	At 31 March 2000 £	Cash Flows £	Other changes £	At 31 March 2001 £
Cash at bank and in hand	6,167,445	5,915,903	-	12,083,348
	6,167,445	5,915,903	-	12,083,348
Debt due within 1 year	-	-	-	-
Debt due after 1 year	-	(6,530,000)		(6,530,000)
	-	(6,530,000)	-	(6,530,000)
Total	6,167,445	(614,097)	-	5,553,348

**(d) Purchase of Subsidiary Undertakings**

	£
Fair value of assets acquired:	
Tangible fixed assets	1,109,959
Debtors	3,310,050
Creditors	(1,911,298)
Provisions	(132,463)
Cash	239,474
Total	2,615,722
Satisfied by:	
Issue of ordinary share capital	11,388,246
Cash	12,307,402
Contingent consideration	13,952,568
Total	37,648,234
Goodwill	35,032,512

## 21. Cash flows (continued)

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### (e) Cash flows relating to acquisitions

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	£
Operating cash flows	3,505,779
Returns on investments and servicing of finance	1,122
Capital expenditure and financial investment	212,043
Total	3,718,944

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## 22. Related parties

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ectwo.com plc, a company of which P Dicks is a director contributed £500,000 to the Convertible Loan Stock advanced to the company during the year. The contribution was made through respective third parties under standard commercial terms.

## 23. Betting licence

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Sportingbet.com (Alderney) Limited operates under a 5 year fixed term licence from 7 May 1998, under the Gambling (betting) (Alderney) Ordinance 1997. The licence enables the company to undertake a sports and casino betting service on the Internet through its electronic betting centre. Under the provision of this Ordinance, the licence can be varied or any condition rescinded at any time.

The Group sublicences the right to use a licence granted by the Government of the Netherland Antilles pursuant to the National Ordinance on off-shore games of hazard (official Gazette 1993, No.63). The licence enables the Group to undertake its casino activity.

# Notice of Meeting

for the year ended 31 March 2001

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at the offices of Dresdner Kleinwort Wasserstein, 20 Fenchurch Street, London EC3P 3DB on the 1st day of November 2001 at 2 p.m. for the following purposes:

## AGENDA

As Ordinary Business to consider, and if thought fit, pass the following resolutions which will be proposed as ordinary resolutions:

1. To receive and adopt the Accounts for the year ended 31 March 2001 and the Reports of the Directors and Auditors in relation to the same.
2. To re-appoint BDO Stoy Hayward as Auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the Directors to fix their remuneration.
3. To re-appoint Alfred Francis Ballester as a Director.
4. To re-appoint Sean Stuart O'Connor as a Director.
5. To re-appoint Colin Edward Walker as a Director.
6. To re-appoint Robert James Williams as a Director.
7. To re-elect Nigel Terence Payne as a Director.

As Special Business to consider, and if thought fit, pass the following resolutions; Resolution 8 will be proposed as an ordinary resolution and Resolutions 9 and 10 will be proposed as special resolutions:

8. That:
  - (1) Pursuant to and in accordance with Section 80 of the Companies Act 1985 the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities within the terms of the restrictions and provisions following, namely:
    - a. this authority shall (unless previously revoked, varied or renewed) expire on whichever is the earlier of the conclusion of the Annual General Meeting of the Company next following the passing of this Resolution, and 31 December 2002; and
    - b. this authority shall be limited to the allotment of relevant securities up to an aggregate nominal amount of £848,738;
  - (2) for the purposes of sub-paragraph 8(1) above:
    - a. the said authority shall allow and enable the Directors to make an offer or agreement before the expiry of that authority which would or might require relevant securities to be allotted after such expiry; and
    - b. words or expressions defined in or for the purposes of Part IV of the Companies Act 1985 shall bear the same meaning herein;
  - (3) the authority conferred by sub-paragraph 8(1) above shall be in substitution for all previous authorities conferred upon the Directors to allot relevant securities, which are hereby revoked without prejudice to any allotment of securities pursuant hereto.
9. That:
  - (1) Pursuant to and in accordance with Section 95 of the Companies Act 1985 the Directors be and are hereby given power to allot equity securities for cash pursuant to the general authority conferred upon the Directors in Resolution 8 above as if sub-section (1) of Section 89 of the Companies Act 1985 did not apply to any such allotment, provided that the power hereby granted:
    - (a) shall be limited to:
      - (i) the allotment of up to 4,666,667 new ordinary shares of 0.1 pence each arising on the conversion of the £7,000,000 nominal 10% Convertible Unsecured Loan Stock 2003 of the Company;
      - (ii) the allotment of equity securities in connection with or pursuant to an offer of equity securities open for acceptance for a period fixed by the Directors to (a) holders on the register on a record date fixed by the Directors of ordinary shares in the capital of the Company in proportion to their respective holdings (for which purpose holdings in certificated and uncertificated form may be treated as separate holdings) and (b) other persons so entitled by virtue of the rights attaching to any other securities held by them but subject in both cases to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of or the requirements of any recognised regulatory body or any stock exchange in any territory;
      - (iii) the allotment (otherwise than pursuant to sub-paragraphs (a)(i) to (a)(ii) of this provision) of equity securities up to an aggregate nominal amount of £844,071;
    - (b) shall (unless previously revoked, varied or renewed) expire on whichever is the earlier of the conclusion of the Annual General Meeting of the Company next following the passing of this Resolution, and 31 December 2002;

- (2) the said power shall allow and enable the Directors to make an offer or agreement before the expiry of that power which would or might require equity securities to be allotted after such expiry;
  - (3) the nominal amount of any securities shall be taken to be, in the case of rights to subscribe for or convert any securities into shares of the Company, the nominal amount of any such shares which may be allotted pursuant to such rights; and
  - (4) words and expressions defined in or for the purposes of Part IV of the Companies Act 1985 shall bear the same meaning herein.
10. That the name of the Company be changed to "Sportingbet Plc".

BY ORDER OF THE BOARD

.....  
Secretary

Registered Office:

6th Floor  
Transworld House  
82-100 City Road  
London EC1Y 2BJ

Notes:

1. Only those shareholders on the register of members of the Company as at 6pm on Tuesday 30th October 2001 or, if the meeting is adjourned, on the register of members of the Company 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend or vote at the above general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register after 6pm on Tuesday 30th October 2001 or, if the meeting is adjourned, on the register of members of the Company 48 hours before the time fixed for the adjourned meeting, shall be disregarded in determining the rights of any person to attend and vote at the meeting.
2. A member of the Company eligible to attend and vote at the meeting is entitled to appoint one or more proxies to attend, and on a poll, to vote in his stead. A proxy need not be a member of the Company. A Form of Proxy accompanies this document for your use. To be valid, Forms of Proxy together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof must be deposited at the registered office of the Company 6th Floor, Transworld House, 82-100 City Road, London EC1Y 2BJ addressed to, or marked for the attention of, the Company Secretary not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. Deposit of a Form of Proxy will not prevent a member from attending and voting in person should he so wish.



