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# Annual report and accounts 2003/04

**Examine Sportingbet's role in the glittering world of global entertainment. Learn how we plan to remain centre-stage**



***sportingbet Plc***

# Contents



**The world's leading online gambling company**

# A winning hand: Our results

Turnover **£1,431.9 million**
Operating profit **£21.7 million**
Sports bet volumes up **36% to 31.9 million**
Number of registered customers up **30% to 1.23 million**
Cost per bet down **12% to £2.53**

**Financial highlights**
16 months ended 31 July 2004

**Turnover**

**Operating profit**

* Financial results for the 12 months ending March.
* Financial results for the 16 months ending July.

**Business highlights**
12 months ended 31 July 2004*

**Registered customers**

**Sports bets**

**Cost per bet**

* Due to change in year end business highlights have been prepared on basis of new accounting period (with exception of registered customers for 2001/02).

# A one-stop-shop for recreational gambling

As the online gambling market rapidly matures, the era of the one-dimensional sports betting website is coming to an end. We've played a part in its demise.

In just 6 or 7 years, online gaming has become a lively form of mainstream entertainment. Betting for fun, not fortune, millions of people around the world choose to spend their leisure time playing online.

Like any aspect of the entertainment industry, online gaming is fast-paced and constantly evolving. We should know – we're leaders of the evolution. In terms of customers and bets taken, we're No 1 in world online gaming.

Home entertainment is our business. We don't run amusement arcades, betting shops or casinos. Instead, we offer a popular mix of products that can be found in each of these outlets.

From ball games to card games, our websites let people play. As recreational gamblers, rather than cigar-chewing high-rollers, our customers enjoy the thrill of playing almost as much as the thrill of winning.

**A flutter for fun**
Confirming our appeal to recreational gamblers, not high-rollers, our average sports bet size across the group is just £35.91.

**The chips are up**
Our online casinos take over 4 million bets in an average week.

# "Like any entertainment medium, we constantly strive to find new ways to engage our audience"

Switching between games of skill and games of chance, gamblers regard our websites as entry points to a range of gaming recreations. A typical American customer, for instance, may place a winning bet on an American football game then spend an hour or two in our virtual casino.

We've pushed the phenomenon of online poker, introduced new games such as SuperHiLo and also brought in casino games and virtual horse racing. To our customers, a virtual race can be as enjoyable as a real run. And there's no danger of soggy conditions stopping the race.

The boom in online poker isn't just on the cards – it's happening. Driven by the drama of televised poker, with the all-seeing camera under the table, the online game has really taken off.

As online gambling becomes a mainstream leisure activity, we're well-placed to win more customers. The breadth of our offer, from baseball to blackjack, means that we can entertain all tastes from a single online portal. Extending our foray into the world of leisure, we accept bets on tens of thousands of events. We've given punters the chance to pick winners of trotting races, the Greek elections and the reality TV show Big Brother.

Apart from widening the opportunities for enjoyment, our expansion to embrace more games has led to a mix of products, bringing a better risk / reward ratio.

Higher margins. Lower risk. And much more fun. The 3.30 at Ascot in Ankara. Casino in Connecticut at 10 pm. Poker at 2 am. Around the world, around the clock, we're truly in the entertainment business.

# Our ascendancy in the eGaming galaxy. Skill and judgement, not a run of luck.

A key factor in our rise to star-status is our single-minded focus on the online space. We have no 'bricks & mortar' distractions.

In just 5 years we've reached the top of the world online gambling league. Our turnover has climbed from zero to over a billion pounds. Much as we enjoy a flutter, we have to admit that luck played no part in our rise to fame. We became market leader through clever thinking and hard work.

The Sportingbet story began in 1998 when Mark Blandford, Founder and Executive Director, sold his chain of UK betting shops. Clearly a pioneer, Mark saw the potential of the Internet and began to offer online bets on European sports. Choosing www.sportingbet.com for its global recognition, he expanded the enterprise to include North American sports in 1999.

Sportingbet shares were admitted to the OFEX trading system in the same year, when the group raised equity funding for IT infrastructure and marketing. Since those early days, our growth has been driven by a combination of organic growth and acquisition. BetMaker and Sportsbook, American operators acquired in 2000 and 2001, were important buys. Sportingodds, a UK company acquired in 2002, has been another successful growth vehicle.

Innovative new product development has also been a factor in our climb to the top. We've pioneered virtual games such as SuperHiLo and High Roller, marketing them effectively to our core sports betting base.

We now have a strong and profitable presence in the US, Europe and Australia, each operating in a different time zone. While America, the world's largest online gambling market, has historically been our dominant source of business, recent progress in Europe and Australia has been excellent. Worldwide, we now have over a million registered customers, a key asset in our drive for further growth.

We believe that our world supremacy gives us a two-year lead over any competitors, due to high barriers to entry. These include the need to set up an effective banking infrastructure, to raise capital, to build trust, to launch a broad product range and to establish a strong risk management capability. Fortunately we already have all these attributes in place.

**Patriotism pays off**
The loyalty of many Greek customers was rewarded when they backed their country to win Euro 2004 at 150-1.

**Superbet**
Our turnover on Superbowl Sunday 2004 was up 40% on 2003.

**A record score**
We take bets on 56 domestic soccer leagues, from the Argentinian League to the Czech 1st Division.

# “We’re listed on the AIM Market of the London Stock Exchange, but over 92% of our customers live outside the UK”

**Our medal-winning run**
In eGaming Review's recent 'Power 25' we were rated the most powerful firm in e-gaming.

# We lead globally. We communicate locally.

**A world of options**
From the kick of a ball to the throw of a dice. From a first place to an ace. We offer choice on a global scale.

We impose no rigid design rules on our website portfolio. Each is allowed to reflect the visual personality of its local culture.

'Think global, act local' runs the old adage. It may be a cliché, but that's precisely what we do. A key to our success has been our ability to meet local needs and develop strong local brands.

Local branding has made us a global power. In fact we were recently declared the most powerful firm in e-gaming, according to eGaming Review. Our top position resulted from our market-leading turnover, global reach and diverse product range.

We thrive on diversity. Each local gaming portal has its own discrete positioning, with content that meets local needs. Each offers diligent customer service in the local language, with convenient methods of depositing money into customer accounts. Along with local betting opportunities, each site provides betting on international sporting events and, where our licence allows, online casino, poker and many virtual games.

Crucially, our public company status and listing on the AIM Market of the London Stock Exchange provides reassurance to customers of all our brands. Our regular bettors also benefit from our customer-centric approach, in which our marketing efforts are built around individual customer needs.

In some markets we work with local marketing partners. They control the marketing and customer service while we supply the back-end functionality and liability management. Our priority is always to tailor each site and range of gambling opportunities to local demands, rather than simply impose an inflexible translation of the head office version. Unlike some of our multi-national competitors, we believe it's important to provide a cultural match, so we appoint local managers to run each market.

Across the world, our strategy is to lead with local sports presented in a local way, to include international events like the World Cup and golf majors then to add on extras such as virtual horse racing, casino games and poker. A racing punter in Sydney can bet on Australia's Caulfield Cup and the UK's Cheltenham Festival. A soccer fan in Seville can place a bet on the Spanish Liga, the Copa del Rey and the English Premiership. Everyone can play poker, blackjack and roulette. We may be local, but we're never parochial.

# We talk betting in Bulgarian, Czech, Chinese (Traditional) Chinese (Simplified), Danish, English, French, German, Greek, Hungarian, Italian, Norwegian, Polish, Russian, Serbian, Spanish, Swedish, Thai and Turkish

# Close, personal relationships with over a million customers

Using 22 currencies, our customers place over 700,000 bets a day via around 30 websites in 19 languages. Our domain is the world, as these pages from a selection of our leading websites demonstrate.

sportingbet.com is our flagship brand. Available in 19 languages, including Swedish to the north, Italian to the south and Serbian to the east, it offers sports betting from around the world.

sportsbook.com is our leading US brand, mass-marketed self-effacingly as 'The finest Sportsbook & Casino on the planet'. The site meets the mass demand for sports betting in America, offering something for everyone. It's the most visited betting site in the US appealing to the 'average Jo' not the high roller. Proving this point, its average stake is just $60. sportingbetUSA.com, 'where America bets' has everything an American looks for in a betting site, while playersonly.com is designed for young US men.

sportingodds.com is our UK brand with a promise to offer 'Consistently better odds than any other bookmaker'. We have a market leading horse racing service and a competitive soccer offer. The site targets experienced bettors, not people having a once a year flutter on the Grand National. We also offer casino, poker and virtual games.

sportingbet.com.au is Australia's number 1 bookmaker. Australians love to bet and Australian horse racing is by far the most popular betting sport in the country. This year we launched an improved horse racing service to our Australian customers, who use their Sportingbet account to place bets online or by phone.

miapuesta.com is our Spanish language site, where the focus is on soccer. Fixed odds betting on soccer is relatively new in Spain, although Spaniards have been playing the 'Quinella' soccer lottery for years. The site describes the fixed odds bets we offer.

superbahis.com, our site serving the needs of gambling Turks, leads on Turkish soccer and local horse racing whilst sb28.com caters for gamblers on the Chinese mainland and across Asia. With graphics reflecting the vibrancy of the Orient, it's available in two Chinese languages.

We're continually expanding our product range to reflect local market needs and capitalise on global online gaming trends. Are we global or local? It's a dead heat.

# Led by marketing, we have a clear sense of direction

Like sports betting enthusiasts, online poker players are people who back their judgement with money. The identical profile of these groups presents us with winning opportunities.

**The clear favourite**
Horse racing is the most popular betting sport in Australia, attracting bets of Aus $1.7 billion a year.

**A more open Open**
A Sportingodds customer put £50 on Todd Hamilton to win the Open at odds of 400 – 1. Todd won the Open. Our customer won £20,000.

**Jackpot!**
Placing a $76 stake, a US customer won $379,928 in our online casino.

We're the most powerful firm in global egaming, coming top in eGaming Review's 'Power 25'. Naturally we intend to retain this supremacy, with increasing turnover and profits. Building on our strong market positions, we aim to maintain and reinforce our leadership.

Our Business Plan is ambitious, but attainable. Without giving too much away (our competitors may be reading) we can report that sophisticated marketing is central to our planning. We intend to build higher margin / lower volatility turnover to meet strict financial targets. In other words, we won't pursue turnover for its own sake – we want 'Quality Turnover'.

We'll get it by developing our understanding of the way our existing customers think and behave. With our proven marketing techniques as a foundation, we'll place an increasing emphasis on Customer Relationship Management, putting understanding our customers' needs at the heart of everything we do. Using our software-driven programmes, we'll match our marketing efforts more closely to our customers' interests.

The trust that our customers have in our brands is an important factor in this strategy. Online gamblers are naturally reassured by our on-screen message that Sportingbet is a public company, listed on the AIM Market of the London Stock Exchange. They appreciate the transparency and clarity of our financial dealings. Our Customer Charter and Code of Conduct give additional reassurance.

Maintaining this ethical stance, we'll broaden our entertainment value. Meeting customer demand, we'll offer more poker. Along with our casino, this will improve the 'stickiness' of our sites. We'll also expand and enhance our horse racing and virtual games offering.

Leveraging our strong brands and wide product range, we aim to drive increased volumes through the business. As we pursue this strategy we'll demonstrate the true scalability of our online betting business model.

Our priority is to continue to expand market share in our core markets of North America, Europe and Australia. We'll also continue our planned expansion into the world's emerging gaming markets. Different cultures. Different customers. And a customer-centric strategy.

# Chairman's statement

Our record profitability demonstrates the success of our strategy to drive growth from leisure gambling, providing an entertainment oriented product.

**Peter Dicks**
Non-Executive Chairman

**Our customers: global and loyal**
Around the world, around the clock, we take over 8 bets every second.

retouch/remove 'phone'

I am delighted to report a very strong performance for the Group. Our strategy of driving growth from leisure gamblers and an entertainment oriented product offering across our market leading brands continues to prove successful. Sportingbet now has over 1.2m registered customers and takes the equivalent of over eight bets per second, throughout the year. This significant volume has enabled us to leverage off our scalable business model and deliver record profitability and cash inflow to pay down a significant proportion of our debt.

In the 12 months to 31 July 2004 the number of registered customers has increased by 282,887 (29.8%) to 1,231,649 and the number of sports bets placed has risen by 8.5m (36.5%) to 31.9m (2003: 23.4m), reflecting both the strength of the Group's product range and the increased loyalty of the customer base. As the number of bets has risen, the Group's operational leverage has reduced the average cost per sports bet by 12.5% from £2.89 to £2.53. Increased database activity, in conjunction with the benefit of additional product, has also led to substantially higher casino, gaming and fee income, with margin rising by £11.6m (40.6%) to £40.2m (2003: £28.6m).

Our industry continues to undergo rapid change, with consumers now demanding a wide variety of products from their internet gaming supplier. By focusing on these dynamically changing requirements and delivering best-of-breed products, Sportingbet has now successfully moved into a new phase of its development. Our combination of profitability, global reach and product range has enabled us to satisfy this growing demand and consequently increase shareholder value. With strong organic growth in betting volumes at the start of the busy season, we look forward to the future with confidence.

Peter Dicks, Chairman

# "The number of customers, the bets taken and the profits and cash generated have all reached record levels"

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# Group Chief Executive's review

We are leading the global online gaming industry in providing an ever expanding product range to engage and entertain our loyal customer base.

**Nigel Payne**
Group Chief Executive

**Who Dares Wins**
One of our customers placed 1000 Swedish kronor on a multi-sport accumulator.
He accumulated 1.1 million kronor.

**Regional Review**
During the period we have seen the number of customers using Sportingbet's services, the number of bets taken and the profits and cash generated reach record levels.

In order to provide a meaningful indication of the progress of the Group, the review of operations compares the 12 months ended 31 July 2004 with the 12 months ended 31 July 2003. For the purpose of like for like comparison the information provided has been given on the basis of consistent accounting treatment.

**Europe**
Our European business has improved materially. The region now has a developed business in 16 European markets operating in 16 different languages. New products, such as European basketball and person-to-person games, continue to widen the appeal of Sportingbet's brands in the region. The wide-ranging increase in product offered and the expansion into high margin new markets has enabled the region to generate a solid operating profit.

In the 12 months ended 31 July 2004, the number of customers in Europe rose by 186,614 (70.7%) from 263,971 to 450,585. The number of sports bets placed increased sharply by 5.4m (98.2%) to 10.9m (2003: 5.5m). The average bet size within each individual European market was broadly constant, though the average for the region as a whole fell during the year to £15.26 (2003: £21.18), reflecting the penetration into new lower staking markets. Turnover rose by 43.9% to £166.4m (2003: £115.6m).

Margin performance in Europe has been good throughout the year. The sports gross margin percentage increased to 8.5% (2003: 7.2%). The record level of activity, together with targeted cost reduction initiatives, lowered the average cost per sports bet to £1.95 (2003: £2.31), the lowest in the Group. A particular area of success in the 12 months to 31 July 2004 has been the growth of the European region's casino, virtual games and poker products. Sportingbet's market-leading suite of proprietary virtual games, combined with its casino and fast growing poker room, generated a 157.5% rise in margin to £8.6m in the 12 months (2003: £3.3m).

### USA

Our US business has had another strong year, with record volumes and profitability. In the 12 months ended 31 July 2004, the number of customers rose by 85,387 (13.2%) from 647,691 to 733,078. The number of sports bets placed increased by 2.2m (12.8%) to 19.0m (2003: 16.8m). The average sports bet size rose during the year to $60 (2003: $57). The sports gross margin in the 12 months was 6.5% (2003: 6.9%). The increased activity level generated a reduction in the average cost per sports bet to £2.66 (2003: £2.83). The region's casino, gaming and fee income has performed strongly, generating a 24.9% increase in margin to £31.6m (2003: £25.3m).

The Board is particularly pleased with the growth of its US facing casino and gaming business, following the introduction of an enhanced product offering from World Gaming, Sportingbet's US software supplier, in the summer of 2003. Sportingbet launched its US facing horse racing business in April 2004 and the rollout across all of the US facing brands will be completed during November 2004. Internet poker was soft launched in July 2004.

During the 12 months ended 31 July 2004, Sportingbet's internal review of the online gaming software market showed that the cost of supply of the US region's software from World Gaming was out of line with other newer and lower cost options. Sportingbet accordingly restructured its relationship with World Gaming in August 2004, which was approved by the shareholders of World Gaming in October 2004. The new arrangements provide Sportingbet with joint ownership of the software platform for its US facing business and, importantly, control over the future development of the software. The arrangements also reduce Sportingbet's costs going forward. Were the new arrangements in place for the full 12 months ended 31 July 2004, the total costs incurred by Sportingbet for the use of the software and for the provision of US facing hosting services would have been reduced by approximately $5m. Sportingbet intends to re-invest a reasonable proportion of these savings into additional development of the software.

### Australia

In Australia, the launch of our internet platform has been successful, with the number of internet bets in the region now representing 43% of all bets. The transition in the Australian sports betting market from being a primarily telephone-based betting market to one where the internet is now a strong force continues, with the internet both expanding the overall market size in the region and, importantly, taking market share.

In the 12 months ended 31 July 2004, the percentage of bets taken through the internet in Australia rose to 43% (2003: 4%). In the 12 months ended 31 July 2004, the number of customers rose by 10,886 (29.3%) from 37,100 to 47,986. The number of sports bets placed increased by 0.9m (85.5%) to 2.0m (2003: 1.1m). The average sports bet size has fallen in line with the increase in lower staking internet activity to AUS$408 (2003: AUS$505). The 71.5% increase in activity, offset by a lower average bet size, has generated an increase in turnover of 65.4% to £332.1m (2003: £200.8m). This record activity level and particularly the introduction of the higher volume, lower cost internet betting platform has resulted in the average cost per sports bet falling significantly to £4.50 per bet (2003: £6.65).

The gross margin percentage in the region was below management's expectations at 2.3% (2003: 3.8%). The fast expanding internet business delivered a margin of 3.9% and is growing well. The telephone business, however, delivered a margin of 2.1%. Whilst the Board recognises that telephone margin across the industry in this region has been below the long term average this year, the Board has nevertheless initiated a review of the Group's telephone risk management policies and early signs of this change programme are encouraging.

### Recent Developments

Sportingbet are leading the industry in providing an ever expanding product range to engage and entertain our loyal customer base. In an industry leading move Sportingbet recently announced the acquisition of Paradisepoker.com, one of the worlds largest gaming companies.

### The Online Poker Market

Poker is becoming a global mainstream entertainment pastime as demonstrated by the mass popularity of televised poker events. The World Poker Tour has over 2 million viewers every week and ESPN's broadcasts of the World Series of Poker have become one of the networks highest rated shows. In the US alone there are estimated to be 50-80 million poker players. With such massive levels of interest in the offline game the growth of online poker comes as no surprise.

**Paradise found**
Poker players have a high propensity to bet on sports. And vice versa. ParadisePoker and Sportingbet are a perfect fit.

**A run of luck? Or judgement?**
A £20 racing accumulator led to a £100,000 win for one astute (or lucky) customer.

Online poker represents the largest opportunity in the online gaming industry today having grown from almost nothing in 1999 to an estimated market size (Rake) of $1.5billion in 2004. Sportingbet launched poker onto its European websites in November 2003 and on selected US facing sites in the summer of 2004. Our experience to date, coupled with third party quantitative market research has shown the high propensity amongst sports bettors to play poker and vice versa. The introduction of ParadisePoker to our existing brand portfolio will allow us to realise the cross-sell opportunities faster than previously thought. Despite its dramatic growth the online poker market remains dominated by 3 or 4 global poker sites of which ParadisePoker is one.

The Board was mindful not to launch poker across all of the US region's major brands in order that maximum advantage could be leveraged from the ParadisePoker brand post acquisition. Following the acquisition, poker will now be aggressively rolled out and marketed across all US brands. With a large US sports betting customer database, the Board considers this to be a significant opportunity both in terms of organic poker growth and cross selling into the Paradise brand.

## Paradise Poker

ParadisePoker was established in 1999 and is one of the top three poker sites in the world. It achieved a milestone earlier this year when it dealt its 500 millionth hand – the first single site online card room to achieve this. ParadisePoker is a well established brand name in the online gaming industry with its core strength in the US but with truly global aspirations.

Sportingbet has already built a strong market presence across a number of Global markets and is confident the addition of ParadisePoker to its brand portfolio will allow both brands to develop global reach faster and more effectively than previously seen anywhere in the e-gaming industry.

The initial objective however is to cross-market poker to the 1.2 million Sportingbet customers and Sports betting and Casino to the 0.7 million ParadisePoker customers. We will be embarking on an extensive cross-marketing campaign over the coming months.

Further details of this transaction are set out within the Directors' report on page 27.

## Outlook

During the first three months of the current financial year, organic growth in the number of new customers and bets placed has continued to advance at a strong pace and key performance indicators of the Group have progressed well. The recent acquisition of ParadisePoker positions us as a powerful force within the global gaming industry and represents a significant opportunity to secure improved revenue growth. The Sportingbet Group is set to enter a new and exciting phase in its evolution and we look forward to the future with confidence.

Nigel Payne, Group Chief Executive

# The Sportingbet Plc Board of Directors

**Peter Dicks** aged 61†*•
**Non-Executive Chairman**
Peter Dicks joined the Group in January 2000 as Sportingbet Plc's Non-Executive Chairman. Peter has a wealth of investor experience in both the United Kingdom and United States. Peter is the Chairman of GEI Group Limited and director to various UK and US companies including Enterprise Capital, The East German Investment Trust, Polar Technology Trust and Standard Microsystems (NASDAQ). Previously, Peter was a founder of Abingworth Plc, which specialised in private equity investments.

**Mark Blandford** aged 46
**Founder and Executive Director**
Mark Blandford is the Founder and Executive Director of Sportingbet Plc. Previously the owner of a traditional 'bricks and mortar' bookmaker's chain for over 15 years, Mark recognised the potential of the Internet in the mid 90's. He sold his chain to Tote Bookmakers in 1997. In October 1998 he launched Sportingbet and in January 2001 the Company floated on the Alternative Investment Market of the London Stock Exchange.

**Brian Harris** aged 58*•
**Non-Executive Director**
Brian Harris joined Sportingbet Plc as a Non-Executive Director in January 2003. He founded Brian Harris & Co. in 1973, a London legal practice covering most areas of the law. Brian's areas of expertise include international joint ventures in Australia and the USA, and he is the legal advisor to one of the member states of the CIS. He is a member of the International Bar Association.

**Nigel Payne** aged 44
**Group Chief Executive**
Nigel Payne, is Group Chief Executive of Sportingbet Plc. Nigel joined in May 2000 as Group Finance Director and steered the Company through two fundraisings, the Listing on AIM and the acquisition of two businesses serving the Australian and American markets. Nigel became Group Chief Executive in November 2001. Prior to 2000, Nigel was Group Finance Director of Polestar Magazines, Europe's largest magazine printer, and has held directorships at Scottish & Newcastle and Brann Direct Marketing. Nigel qualified as a Chartered Accountant in 1984.

**Sean O'Connor** aged 55†*•
**Non-Executive Director**
Sean O'Connor joined Sportingbet Plc as a Non-Executive Director in 2000. Sean comes from an advertising background. In 1991 Sean founded Trillium Venture Developments, a packager for corporate development projects. He is Non-Executive Director of several companies including Phoenix Equity Partners, Cape Plc and Graphite Enterprise Trust plc.

**Andrew McIver** aged 41
**Group Finance Director**
Andrew McIver is Group Finance Director of Sportingbet Plc. Andrew qualified as a Chartered Accountant with Arthur Andersen. Following two years in the Corporate Finance department at Dresdner Klienwort Wasserstein, he held senior finance positions at Signet Group Plc, Ladbroke Group Plc and British Telecom's Internet division. He was then Director of Finance with House of Fraser Plc for four years before joining Sportingbet in December 2001.

**Bob Holt** aged 50†
**Non-Executive Director**
Bob Holt joined Sportingbet Plc as Non-Executive Director in early 2004. He is Chairman and Chief Executive of Mears Group Plc, a company presented last year with the AIM Company of the Year award. Bob is also Chairman of Supporta Plc and Wyatt Group PLC and a Director of VCT plc.

† Member of the Audit Committee
* Member of the Remuneration Committee

# Financial Review

In October 2003 the Board announced a change in the financial year end. It was felt that the financial reporting did not synchronise with the seasonal sporting calendar. In order to harmonise the quarterly reporting and commercial cycle, the year end was changed from 31 March to 31 July. This change will enable any short term margin swings to even out. During this transitional year, we will report 16 months to 31 July 2004. The next financial year will be 1 August 2004 to 31 July 2005.

**Trading Summary**

Turnover for the 16 months ended 31 July 2004 was £1,431.9m (12 months to March 2003: £969.6m), earning a gross margin of £117.9m (2003: £74.1m) at 8.2% of turnover (2003: 7.6%). Sports betting turnover was £1,386.1m (2003: £950.3m), earning a gross margin of £72.1m (2003: £54.8m) at a gross margin percentage of 5.2% (2003: 5.8%). Casino betting and fee income contributed a further £35.6m and £10.2m respectively to both turnover and gross margin (2003: £4.0m and £15.3m). As set out in note 2 to the financial statements, Sportingbet's basis for accounting for casino activities changed following the renegotiation of the Sportsbook earn-out in July 2003, and the subsequent acquisition of certain casino sites. As a result Sportingbet has adopted the generally accepted policy of showing net win on casino activities as turnover, whereas previously turnover was reported as gross bets placed. This change reduces Group turnover and increases gross margin percentage. The net revenue from the acquired sites was previously included in white label fee income and associated marketing costs were net of amounts recharged. There is no impact on operating profit.

For the purpose of like for like comparison the information within this report relating to Key Performance Indicators is on the basis that this accounting policy prevailed. In addition the periods reviewed for the Key Performance Indicators are for the 12 months to 31 July 2004 and 12 months to 31 July 2003.

Costs (excluding goodwill amortisation and exceptional costs) in the 16 months to 31 July 2004 of £96.2m (2003: £59.5m) represented 6.7% (2003: 6.1%) of turnover. Costs comprised marketing of £27.5m (2003: £12.9m), commissions paid to marketing partners and third party software providers of £17.1m (2003: £10.6m), banking fees of £19.6m (2003: £13.6m), employee costs of £18.7m (2003: £11.0m), other administration costs of £11.0m (2003: £9.9m) and depreciation of £2.3m (2003: £1.5m).

Operating profit before goodwill and exceptional costs was £21.7m (2003: £14.6m), representing 1.5% (2003: 1.5%) of turnover. With approximately 85% of the Group's revenues and costs denominated in foreign currency, exchange rates, particularly the dollar/sterling rate, can have a significant impact on the reported figures. The average dollar/sterling exchange rate for the 16 months was $1.74, a 12% decline over the average for the 12 months ended 31 March 2003. The net impact of the adverse exchange rate movements during the year has been to reduce the Group's operating profit from trading activities by £2.9m. However this has been partially offset by the retranslation at the end of the period of US dollar creditor due to the vendors of Sportsbook, which resulted in an exchange gain of £2.4m. This gain is included in administration costs.

Profit before tax was £5.4m (2003: £1.4m), after deducting exceptional costs of £5.1m (2003: £1.4m), goodwill amortisation of £9.6m (2003: £9.6m), net finance costs of £2.0m (2003: £2.2m) and adding the share of operating profit in associate of £0.4m (2003: £Nil).

Of the exceptional costs, £1.8m relates to legal and professional fees associated with renegotiating the Sportsbook earn-out and offer discussions in the period. The remaining £3.3m relates to the uncertain collection of outstanding bank processing monies. Though these monies remain outstanding progress continues to be made in collecting them. Nonetheless, the Board has decided to take the prudent position of making an exceptional provision.

Included within interest is a non-cash charge of £0.6m (2003: £1.5m) in respect of the FRS7 requirement to discount future earn-out liabilities back to current values. The final charge was made in July 2003, when the Sportsbook earn-out was settled.

**Finance Costs**

Finance costs comprised interest receivable on the Group's cash balances of £0.1m (2003: £0.1m), interest payable on the Group's £6.5m 2003 convertible loan note of £0.2m (2003: £0.7m), interest payable on bank loans and overdrafts of £1.1m (2003: £Nil), interest payable on finance leases of £0.1m (2003: £Nil) and a non cash charge of £0.6m (2003: £1.5m) arising from the discounting of future earn out liabilities back to current values in accordance with U.K. accounting standard FRS7.

**Cashflow**
During the 16 months ended 31 July 2004, the Group generated cash from operating activities of £24.3m (2003: £9.3m), of which £16.9m was used to repay net debt.

As at 31 July 2004 the Group had £20.3m (2003: £20.1m) of cash and cash deposits on its balance sheet and gross debt, (including amounts owing under the rescheduled earn-outs of £16.5m) amounted to £33.8m (March 2003: £51.6m). This comprised a bank loan and overdraft totalling £17.3m, non-interest bearing, US dollar denominated creditor due to the vendors of Sportsbook of £15.7m ($28.5m) and a contingent consideration payment in Australia of £0.8m, pending the outcome of ongoing litigation.

Since the year end, a further £2.0m of net debt has been repaid.

**Earnings per share**
Earnings per share pre exceptional costs and goodwill was 10.0p (2003: 7.1p). After taking account of exceptional costs and goodwill, basic earnings per share was 2.6p (2003: 0.8p).

**Dividends**
The Board continues to review the options for eliminating the Company's deficit on its distributable reserves, including a Court approved reduction of capital. Subject to the elimination of this deficit, and satisfactory financial performance, the Board intends to declare a maiden dividend in respect of the year ending 31 July 2005.

**Treasury Management**
The Group's treasury function provides a centralised service for the provision of finance and the management and control of liquidity, foreign exchange and interest rates. The function operates as a cost centre and manages the Group's treasury exposure to reduce risk in accordance with policies approved by the Board. It is not the policy of the Group to trade in or enter into speculative transactions. Authorities, procedures and reporting responsibilities are documented and regularly reviewed.

Due to the international nature of its core activities, the Group's reported profits, net assets and cash flows are all affected by foreign exchange rate movements, and in particular, is the dollar/sterling exchange rate.

Operations are financed by a mixture of retained profits, bank borrowings and long term loans. In addition, various financial instruments, such as trade debtors and trade creditors, arise directly from the Group's operations.

**Going Concern**
The Directors have a reasonable expectation that the Company has adequate resources to continue operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

**Accounting Standards**
The Group keeps up to date in respect of the work of the Accounting Standards Board and gives careful consideration to early application of the ASB's Financial Reporting Standards.

**Financial Conduct**
In addition to the financial probity obligations resulting from statutory, regulatory, and London Stock Exchange requirements, and the Customer Charter and Code of Conduct as discussed on page 25, the Group applies the following Financial Code:

**Financial Code**
1. Sportingbet maintains at all times available cash resources to cover its customer liabilities.

2. Sportingbet only deals with reputable, secure financial institutions.

3. Sportingbet's processes and systems are designed to minimise the risk of fraud or money laundering.

4. Sportingbet employs and retains qualified finance professionals to monitor and maintain a stringent financial control environment.

5. Sportingbet's financial control environment facilitates informed decision making, allowing the Group to adapt quickly to market changes.

# Corporate Governance Statement

**Compliance**
As an AIM listed company, the Company is not required to follow the provisions of the Combined Code (the "Code") as set out in the Financial Services Authority Listing Rules. However, the Group recognises the importance of the principles of good corporate governance and has continued its commitment to such high standards throughout the year and particularly its voluntary compliance with the provisions set out in Section 1 of the Code.

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 Code are applied by the Group.

**The Board Constitution and Procedures**
The Company is controlled through the Board of Directors which currently comprises three 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 Chief Executive's responsibilities focus on coordinating the Company's business and implementing Group strategy.

A formal schedule of matters is reserved for consideration by the Board, which meets at least 12 times each year. The Board is responsible for overall Group strategy, acquisition and investment 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 programmes. In addition, the Directors have access to the advice and services of the Company Secretary and all Directors are able to take independent professional advice in the furtherance of their duties if necessary. The Directors receive training and advice on their responsibilities as necessary. All Directors, in accordance with the Code, submit themselves for re-election at least once every three years.

**Board Committees**
The Board delegates clearly defined powers to its Audit, Remuneration and Nomination Committees. The minutes of each Committee are circulated to and reviewed by the Board.

**Audit Committee**
The Audit Committee is chaired by Robert Holt with its other members being Peter Dicks and Sean O'Connor. The Audit Committee meets at least twice a year and normally invites a representative of both the auditors and the Executive Directors, the latter usually being the Group Finance Director. The terms of reference of the Committee include monitoring the auditors' performance and reviewing accounting policies and financial reporting procedures.

**Remuneration Committee**
The Remuneration Committee is chaired by Peter Dicks with its other members being Sean O'Connor and Brian Harris. The Remuneration Committee meets when necessary during the year and considers the terms of employment for the Executive Directors and key members of senior management. In particular, the Committee makes decisions regarding grants under share plans, salaries and incentive compensation. The remuneration of Non-Executive Directors is determined by the Board.

**Nomination Committee**
The Nomination Committee is chaired by Peter Dicks with its other members being Sean O'Connor and Brian Harris. It meets during the year as and when required and its function is to carry out the process of nominating candidates to fill vacancies on the Board.

**Communication with Investors**
The Group places a great deal of importance on communication with its institutional and private shareholders and responds quickly to all queries received. There is regular dialogue with institutional shareholders as well as general presentations after each quarter end and the issue of preliminary results.

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

**Accountability and Audit**
**(a) Internal Control**
The Group has fully complied with provision D.2.1 of the Code for the 16 month period to 31 July 2004 and up to the date of approval of the Report and Accounts. The Directors acknowledge that they have overall responsibility for the Group's system of internal control and for monitoring its effectiveness. The Board has ensured that there is an ongoing process for reviewing the effectiveness of the system of internal control including identifying, evaluating and managing the significant risks faced by the Group. This process, which is regularly reviewed by the Board, is carried out in conjunction with business planning and is documented in a risk register that was developed up to the date of approval of the Annual Report and Accounts.

Whilst acknowledging the overall responsibility for the system of internal control, the Board are aware that the system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Group's internal control procedures continue to be progressively developed and formalised to ensure that they sufficiently meet all requirements of the Group. This is reflected by the appointment of a Director of Internal Audit in the financial period to 31 July 2004. Executive members of the Board are involved daily in all aspects of the business and they attend the regular management meetings at which performance against plan and business prospects is reviewed. Additionally, the Board seeks to continually strengthen the internal control system where this is consistent with improving the relationship between risk and reward.

Other key features and the processes for reviewing effectiveness of the internal control system are described below:

- 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;

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

- A comprehensive financial and accounting package sets out the principles of the 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 this package is reviewed regularly;

- Formal reports for the Board are prepared by the senior executives on the operation of those elements of the system for which they are responsible;

- The Company has clearly defined guidance 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 wholly of Non-Executive Directors.

**Social Responsibility**

Sportingbet has developed and complies with its Customer Charter and Code of Conduct.

**Customer Charter**

1. Sportingbet promises to ensure complete transparency and clarity in all its financial relationships with customers.

2. Sportingbet will offer odds on all mainstream sporting events and these will be competitive with other major bookmakers.

3. Sportingbet respects the privacy of all its customers and commits itself to protect any data about customers from outside parties.

4. Sportingbet maintains 24 hour customer service, available in a wide range of languages, to resolve all customer matters as quickly as possible. In the event that there is no amicable agreement in a dispute, Sportingbet agrees to abide by independent arbitration.

**Code of Conduct**

1. Sportingbet complies with all route-to-market legislation everywhere in the world. The Company will only physically operate where it is expressly permitted or licensed to do so.

2. Sportingbet commits to be transparent on the setting and changing of odds and the prompt settling of all customers' financial transactions.

3. Sportingbet complies with all securities' legislation in each market it operates in, and by the appropriate rules and regulations of the UK Stock Exchange.

4. Sportingbet pays all taxes and levies wherever they are applied.

5. Sportingbet is committed to support the world-wide liberalisation and regulation of online gambling.

6. Sportingbet refuses to take bets from minors and supports all efforts to avoid taking bets from compulsive or problem gamblers.

7. Sportingbet commits to be proactive in combating money laundering and any form of financial fraud.

8. Sportingbet's conduct with its customers will be straightforward and helpful at all times.

# Directors' Report

The Directors submit their annual report and audited financial statements of the Group for the 16 months ended 31 July 2004. During the period the Group changed its year end from 31 March to 31 July.

**Principal Activities**
The principal activities of the Group are the operation of interactive licensed betting and gaming operations over the internet and telephone.

**Results and Dividends**
The results of the Group for the 16 month period are set out on page 32 and show a profit for the period of £5.3m (2003: £1.4m). The Directors do not recommend a dividend.

**Review of the Business and Future Developments**
The Group operates worldwide internet and telephone betting facilities in respect of a wide variety of sporting events and casino and poker gaming.

During the period the Group acquired a 29.5% share in World Gaming Plc, the parent company of the software licensing company which provides the online platform for the Group's Americas division. The Group also acquired the remaining 40% share holding of Eurosportwetten Limited in order to increase the focus of its German language website.

A more detailed review of the business and future developments is given in the Chairman's statement on page 15 and Chief Executive's review on pages 17 to 19.

**Directors and their interests**
The following Directors have held office during the year and subsequently:

| | |
|---|---|
| P Dicks | Non Executive Chairman |
| N Payne | Executive |
| A McIver | Executive |
| M Blandford | Executive |
| S O'Connor | Non Executive |
| B Harris | Non Executive |
| A Ballester | Non Executive (resigned 23 October 2003) |
| J Blower | Non Executive (resigned 19 March 2004) |
| R Holt | Non Executive (appointed 19 March 2004) |

Robert Holt, having been appointed during the year, will seek election at the Annual General Meeting. Nigel Payne and Sean O'Connor will retire by rotation at this Annual General Meeting and, being eligible, will each seek re-election. The interests of the Directors and their wives in the shares of the Company and options for such shares, were as shown on pages 28 to 29 both reflecting the year end figures and any subsequent changes. No Director has any interest in any other Group company. Details of the Directors' remuneration and service contracts appear on pages 28 to 29.

**Related Party Transactions**
Details of transactions with related parties undertaken by the Group during the year are disclosed in note 24 to the Financial Statements.

**Corporate Governance**
The Board's statement on Corporate Governance appears on pages 24 to 25.

**Charitable Donations**
During the year, the Group donated £23,500 to charities including £5,000 to the Gaming Industry Charity Trust, £2,600 to the Wooden Spoon Society, £10,270 to local charities in Australia and £795 to local charities in Costa Rica. It is Group Policy not to make political donations and no such donations were made during the year (2003: £Nil).

**Substantial Shareholdings**
As at 28 October 2004 the following interests in 3 percent or more of the Company's existing ordinary share capital had been reported:

| Shareholder | Number of Ordinary Shares of 0.1 Pence each | % of issued Ordinary Shares of 0.1 Pence each |
|---|---|---|
| DBS Advisors Ltd | 32,669,945 | 15.37 |
| Fidelity | 29,579,147 | 13.91 |
| Merrill Lynch Asset Mgmt (UK) | 27,181,685 | 12.79 |
| M & P Blandford | 14,980,173 | 7.05 |
| Mr G Wilkinson | 13,112,603 | 6.17 |
| Invesco Asset Mgmt | 8,830,000 | 4.15 |

**Employee involvement and policy**
The Directors recognise the need for communication with employees at every level. Copies of the annual Report and Accounts are available to all employees which, together with staff briefings on Group developments, keeps them informed of the Group's progress. 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, marital status, nationality, race or religion. Full consideration is given to continuing the employment of staff who become disabled and to provide training and career development opportunities to disabled employees.

**Payment of Suppliers**
It is the policy of the Group that each company within the Group 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. At 31 July 2004 the Company's trade creditors represented 35 days of purchases (2003:

23 days) and Group trade creditors represented 32 days of purchases (2003: 21 days).

**Post Balance Sheet Events**
Effective from 1 October 2004 Sportingbet and World Gaming plc, the supplier of Sportingbet's software platform for the US facing business (the "Software Platform"), entered into a limited liability partnership for a minimum three year term to develop the Software Platform under a mutually agreed development plan.

The consideration payable by Sportingbet for this transaction was $13.3m. This comprises $10m in cash to World Gaming in staged payments, $3.3m value for the transfer of Sportingbet's 29.5% equity interest in World Gaming to a class whereby all rights attached to such shares are cancelled and the cancellation of a convertible loan note owed by World Gaming to Sportingbet.

The new arrangements provide Sportingbet with joint ownership of the Software Platform and control over its future development. Sportingbet has committed to contribute a minimum of $4.5m of development expenditure in each of the first three years of the relationship and a minimum of $2.5m in the fourth year. Sportingbet has also entered into a hosting agreement with World Gaming at a cost of $2.5m per annum. The sum of $3m is due to be paid by Sportingbet to World Gaming upon termination of these arrangements.

On 28 October 2004 the Board announced the acquisition of the business and certain assets of ParadisePoker. The initial consideration for this business was $297.5m financed by: 56.7m vendor shares and $193.3m in cash funded by a debt facility provided by Barclays and cash funded by 44.2m shares of equity placing at 110p. Additional consideration of up to a maximum of $50m will be payable in cash and shares, depending on the profitability of ParadisePoker in the three year period after completion of the acquisition. Further bonus consideration is payable at 10% of cumulative profits in excess of $150m up to a maximum of $25m.

**Annual General Meeting**
The Annual General Meeting will be held on Friday 17 December 2004. The Notice of the Meeting is set out on page 54. The Notice contains special business, including the renewal of authority to the Board to allot shares and the dis-application of statutory pre-emption rights on equity issues for cash – both in accordance with ABI and NAPF Guidelines. Shareholders should complete the Proxy form accompanying this Report in accordance with the notes contained in the Notice of Annual General Meeting.

**Directors' responsibilities in relation to the accounts**
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 Group and the Company 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; and
- 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 Group and 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.

Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

**Auditors**
On 31 December 2003, BDO Stoy Hayward, the company's auditors, transferred its business to BDO Stoy Hayward LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. Accordingly BDO Stoy Hayward resigned as auditors on that date and the directors appointed BDO Stoy Hayward LLP as its successor. A resolution to re-appoint BDO Stoy Hayward LLP as auditors will be proposed at the next Annual General Meeting.

By Order of the Board

D. J. Talisman

D. J. Talisman.

D Talisman LLB ACIS
Company Secretary
28 October 2004

# Remuneration Report

The Directors' Emoluments, Benefits and Shareholdings during the 16 months to 31 July 2004 were as follows:

| **1 Directors Emoluments** | Notes | **Salary/ Fees £000** | **Bonuses £000** | **Benefits £000** | **Total emoluments 2004 £000** | **Pension 2004 £000** | Total emoluments 2003 £000 | Pension 2003 £000 |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| Nigel Payne | 1 | **377** | **260** | **5** | **642** | **35** | 214 | 17 |
| Andrew McIver | | **218** | **171** | **6** | **395** | **20** | 173 | 13 |
| Mark Blandford | | **222** | **1** | **1** | **224** | **21** | 186 | 17 |
| Colin Walker | 2 | – | – | – | – | – | 101 | 13 |
| **Non-Executive Directors** | | | | | | | | |
| Peter Dicks | 3, 4, 5 & 6 | **76** | – | – | **76** | – | 47 | – |
| Sean O'Connor | 3, 4, 5 & 6 | **78** | – | – | **78** | – | 24 | – |
| Alfred Ballester | | **8** | – | – | **8** | – | 20 | – |
| John Blower | | **20** | – | – | **20** | – | 20 | – |
| Brian Harris | 3, 5 & 6 | **53** | – | – | **53** | – | 2 | – |
| Robert Holt | 4 | **15** | – | – | **15** | – | – | – |

1. Aggregate emoluments for Nigel Payne, as highest paid Director, amounted to £641,785 excluding pension contributions (2003: £214,162).
2. Colin Walker has been paid consultancy fees under a Consultancy Agreement totalling £32,000 (2003: £Nil).
3. Included in fees, Peter Dicks, Sean O'Connor and Brian Harris received additional one-off fees of £6,500, £6,500 and £6,000 respectively in respect of additional time spent in relation to renegotiation of the Sportsbook earnout in July 2003 (2003: £Nil).
4. Member of the Audit Committee.
5. Member of the Remuneration Committee.
6. Member of the Nomination Committee.

**2 Interests of Directors in share options and shares in the Company**

| Options | Notes | **No. of options at 1 April 2003** | **No. of options at 31 July 2004** | Date of grant | Exercise price (p) | Earliest exercise date | Expiry of exercise period |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| Nigel Payne | 1 | 100,000 | – | 08/05/00 | 100.5 | 08/05/02 | 08/05/07 |
| | 1 | 900,000 | – | 01/11/00 | 150 | 01/11/02 | 01/11/07 |
| | 1 | 100,000 | – | 31/03/01 | 100 | 31/03/03 | 31/03/08 |
| | 1 | 1,000,000 | – | 05/02/02 | 125 | 05/02/05 | 05/02/09 |
| | 3 | – | **1,500,000** | 29/01/04 | 49 | 29/01/07 | 29/01/14 |
| | | 2,100,000 | **1,500,000** | | | | |
| Andrew McIver | 1 | 100,000 | – | 01/04/02 | 121.5 | 01/04/05 | 01/04/09 |
| | 1 | 400,000 | – | 08/04/02 | 122 | 08/04/05 | 08/04/09 |
| | 1 | 25,000 | – | 04/07/02 | 72 | 04/07/04 | 04/07/09 |
| | 3 | – | **500,000** | 29/01/04 | 49 | 29/01/07 | 29/01/14 |
| | | 525,000 | **500,000** | | | | |
| Mark Blandford | | – | – | – | – | – | – |
| **Non-Executive Directors** | | | | | | | |
| Peter Dicks | 2 | 250,000 | **250,000** | 13/12/99 | 65 | 13/12/01 | 12/12/06 |
| Sean O'Connor | | – | – | – | – | – | – |
| Alfred Ballester | | – | – | – | – | – | – |
| John Blower | | – | – | – | – | – | – |
| Brian Harris | | – | – | – | – | – | – |
| Robert Holt | | – | – | – | – | – | – |

1. In 2004 these share options were waived and cancelled. New share options were issued under Sportingbet Plc's Unapproved Executive Share Option Scheme 2004.
2. Peter Dicks's share options were granted by contract outside of Sportingbet Plc's Unapproved Share Option Scheme.
3. All shares options as at 31 July 2004 have been granted under the Sportingbet Plc Unapproved Executive Share Option Scheme 2004.

No options were exercised during the period. The market price of shares at 31 July 2004 was 98.0p and the range during the financial period was 18.0p to 106.25p.

**(a) Remuneration Policy**

The Company's policy is designed to attract, retain and motivate individuals to ensure the success of the Company. Remuneration packages are designed to reward the Executive Directors fairly for their contributions whilst remaining within the range of benefits offered by similar companies in the sector. The Remuneration Committee seeks to structure total benefits packages which align the interests of shareholders and senior executives with particular importance weighted upon the performance-related elements of such total remuneration. Directors' remuneration will be the subject of regular review in accordance with this policy in the next financial year.

**(b) Terms of Reference**

The terms of reference of the Remuneration Committee include:

• To determine the remuneration and benefits, including incentive arrangements, of the Executive Directors, the directors of divisional companies and other employees of similar status.

• To set targets for performance-related pay elements of remuneration packages.

• To review recommendations from the Executive Directors on the overall remuneration and benefits policy of the Group, with the power and authority to amend it if appropriate.

• To have regard to the provisions of the Combined Code and associated guidance in its decision-making.

**(c) Service Contracts**

The Company's policy on the duration of directors' contracts is that for both Executive and Non-Executive Directors notice periods will be no more than one year served by the Company or the Director.

**(d) Bonuses**

The Company operates a bonus incentive scheme which applies, at differing rates, to the employment terms of the Executive Directors and members of senior management. Part of any payment under this scheme is linked to the annual performance of the business for which they are responsible; the remainder of such payment is made on a discretionary basis.

**(e) Share Option Schemes and Long-Term Incentive Plan**

The Company operates three share option schemes, namely the Unapproved Share Option Scheme (the "Unapproved Scheme"), the Sportingbet Plc Company Share Option Plan (the "IR Approved Scheme") and the Sportingbet Plc Executive Share Option Scheme (the "Executive Scheme"). Prior to the Company's admission to AIM on 30 January 2001, share options were granted under the Unapproved Scheme only and since that date, share options have been granted under the IR Approved Scheme and the Executive Scheme. The Company's policy to grant share options under the IR Approved Scheme and the Executive Scheme is at the Remuneration Committee's discretion as and when considered appropriate.

In 2003, the Remuneration Committee engaged external consultants to review remuneration and benefits packages. As a result, a cash-based long-term incentive plan ("LTIP") was established and offered to a small number of key employees. The LTIP pays a cash sum equivalent to the average of the relevant employee's gross salary calculated over the preceding three years and matures in May 2006.

# Regulatory Developments

The UK Government continues on its path towards modernising its gambling legislation and regulating online gaming. The UK Gambling Bill, which recognises that remote interactive gambling is a significant opportunity for the UK to become the global base for online gaming operators, seeks to provide an appropriate regulatory framework to achieve this. Sportingbet is supportive of the Bill's objective of creating a proper UK regulatory framework. Remote gambling is the only gambling segment currently unregulated in the UK and this Bill will bring such laws up to date with new technology and communication platforms. This will have the effect of enhancing consumer protection and social responsibility for such services. Sportingbet also welcomes the clarification by the UK Government that its proposed regulatory framework permits bets to be taken from US based customers. Notwithstanding its broad support, the Board remains concerned that the UK Gambling Bill, despite its now advanced stage, is still unclear on a number of key issues including taxation levels and server location.

Elsewhere in Europe, the European Court of Justice's verdict in the Gambelli case has had differing effects. Some countries such as Germany have interpreted this ruling as defining legislation that opens up EU markets to suppliers in other member countries. However other countries, such as Denmark and Holland, continue to protect their domestic industry. The European Commission has sent Denmark an official request for information on its legislation, and the Commission intends to verify the compatibility of the Danish legislation with the provisions of the EC Treaty on the free movement of services and on the freedom of establishment. In light of the above and other contradicting views between Member States, the European Commission plans to review the need for a new set of laws to govern remote gambling services across all of its Member States.

In the USA, Representative Bachus passed a Bill (HR2143) through the House of Representatives in June 2003 that would outlaw the use of various financial instruments for the purposes of interactive gambling and attempted to hold financial institutions legally responsible for gaming transactions. The necessary companion Bill in the Senate has been unable to make progress, as the Senate leadership has requested that there be initial consensus from all interested parties, which has not thus far been possible. A further attempt was made in October 2004 to append this Bill to the Patriot Bill (HR10) but this was rejected by the House leadership.

In March 2004, the World Trade Organisation ruled in favour of Antigua and Barbuda and against the US in their trade dispute with regard to internet gambling. The dispute, which was supported by the EU, Japan and Canada, sought to make the US accountable for those commitments in the General Agreement on Trade and Services (GATS) that it had already agreed to, specifically relating to the opening of its borders to non domestic gambling supply. Whilst not yet public, the WTO report is widely believed to conclude that there is no evidence to support the US position regarding the level of risk it associates with internet gambling. Initial attempts by the US to settle the dispute have not, to date, been successful and Sportingbet awaits the publication of the full report in November with interest.

In Australia, the review of the federal Interactive Gambling Act 2003 has now been completed. No changes to Sportingbet's business model arise from the review. As part of the review submissions, the Australian Racing Board introduced a proposal to charge a product fee. Such a levy, if enacted, would be charged to all corporate bookmakers for the use of the "horse racing product". Sportingbet believes that such a levy, if introduced, would in fact be counterproductive. A number of operators would simply relocate offshore, thereby avoiding paying the product fee and existing taxes. At the same time they would then be able to offer games of chance (such as casino, poker and virtual games) for which no onshore licences are presently available. The review also allowed, for the first time, individual States to issue Australian Exchange Licences. This new policy from the Government has been controversial and to date no actual licences have been issued.

# Report of the independent auditors
to the shareholders of Sportingbet Plc

We have audited the financial statements of Sportingbet Plc for the 16 months ended 31 July 2004 on pages 32 to 53, which have been prepared under the accounting policies set out on pages 35 to 36.

**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 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 risks and controls or form an opinion on the effectiveness of the Group's corporate governance 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 Chairman's Statement, Chief Executive's Review, Financial Review, Review Reports, Corporate Governance Statement and the Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely on this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

**Basis of Audit Opinion**
We conducted our audit in accordance with United Kingdom 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 July 2004 and of the profit of the Group for the 16 months then ended and have been properly prepared in accordance with the Companies Act 1985.

**BDO Stoy Hayward LLP**
Registered Auditors and
Chartered Accountants
London
28 October 2004

# Consolidated Profit and Loss Account
for the 16 month period ended 31 July 2004

| | Notes | Before goodwill amortisation £m | Goodwill amortisation £m | Total Period ended 31 July 2004 £m | Total Year ended 31 March 2003 restated £m |
|---|---|---|---|---|---|
| Turnover | | | | | |
| Continuing operations | | **1,429.5** | - | **1,429.5** | 969.6 |
| Acquisitions | | **2.4** | - | **2.4** | – |
| **Turnover** | 1,3 | **1,431.9** | - | **1,431.9** | 969.6 |
| Cost of sales | | **(1,314.0)** | - | **(1,314.0)** | (895.5) |
| Gross profit | | **117.9** | - | **117.9** | 74.1 |
| Net operating expenses (including exceptional items) | | **(101.3)** | **(9.6)** | **(110.9)** | (70.5) |
| Operating profit before exceptional items | | **21.7** | **(9.6)** | **12.1** | 5.0 |
| Exceptional items | 4 | **(5.1)** | - | **(5.1)** | (1.4) |
| Operating profit | | | | | |
| Continuing operations | | **16.5** | **(9.6)** | **6.9** | 3.6 |
| Acquisitions | | **0.1** | - | **0.1** | – |
| **Operating profit** | | **16.6** | **(9.6)** | **7.0** | 3.6 |
| EBITDA | | **18.9** | - | **18.9** | 14.7 |
| Depreciation | | **(2.3)** | - | **(2.3)** | (1.5) |
| Amortisation | 11 | - | **(9.6)** | **(9.6)** | (9.6) |
| Share of operating profit in associate undertaking | | **0.7** | **(0.3)** | **0.4** | – |
| **Profit on ordinary activities before interest** | | **17.3** | **(9.9)** | **7.4** | 3.6 |
| Net interest payable | 7 | **(1.4)** | - | **(1.4)** | (0.7) |
| Other finance charges | 8 | **(0.6)** | - | **(0.6)** | (1.5) |
| Interest payable and similar charges | | **(2.0)** | - | **(2.0)** | (2.2) |
| **Profit on ordinary activities before taxation** | 5 | **15.3** | **(9.9)** | **5.4** | 1.4 |
| Taxation | 9 | - | - | - | - |
| **Profit on ordinary activities after taxation** | | **15.3** | **(9.9)** | **5.4** | 1.4 |
| Minority Interest | | **(0.1)** | – | **(0.1)** | - |
| **Profit for financial period** | | **15.2** | **(9.9)** | **5.3** | 1.4 |
| **Earnings per ordinary share** | | | | | |
| Basic | 10 | | | **2.6p** | 0.8p |
| Diluted | 10 | | | **1.8p** | 0.5p |
| **Adjusted earnings per ordinary share (before goodwill amortisation and exceptional items)** | | | | | |
| Basic | 10 | | | **10.0p** | 7.1p |
| Diluted | 10 | | | **6.8p** | 4.1p |

The notes on pages 35 to 53 form part of these financial statements. There are no material differences on an historical cost basis to the amounts stated above. All the above amounts relate to continuing activities.

# Balance Sheets
as at 31 July 2004

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **as at 31 July 2004** | as at 31 March 2003 | **as at 31 July 2004** | as at 31 March 2003 |
| | Notes | **£m** | £m | **£m** | £m |
| **Fixed assets** | | | | | |
| Intangible assets – goodwill | 11 | **124.2** | 125.1 | **–** | – |
| Tangible assets | 12 | **5.2** | 4.3 | **0.1** | 0.5 |
| Investments | 13 | **2.7** | – | **101.6** | 98.2 |
| | | **132.1** | 129.4 | **101.7** | 98.7 |
| **Current assets** | | | | | |
| Debtors | | | | | |
| – amounts falling due within one year | 14 | **8.3** | 9.8 | **7.4** | 9.5 |
| Cash at bank and in hand | | **20.3** | 20.1 | **0.8** | 2.1 |
| | | **28.6** | 29.9 | **8.2** | 11.6 |
| Creditors | | | | | |
| – amounts falling due within one year | | | | | |
| Other creditors | 15 | **(57.9)** | (18.5) | **(63.1)** | (14.8) |
| Convertible debt | 15 | **–** | (15.3) | **–** | (15.3) |
| | | **(57.9)** | (33.8) | **(63.1)** | (30.1) |
| Net current liabilities | | **(29.3)** | (3.9) | **(54.9)** | (18.5) |
| **Total assets less current liabilities** | | **102.8** | 125.5 | **46.8** | 80.2 |
| Creditors | | | | | |
| – amounts falling due after more than one year | | | | | |
| Other creditors | 16 | **(0.1)** | (0.1) | **–** | – |
| | | **(0.1)** | (0.1) | **–** | – |
| Provisions for liabilities and charges | 17 | **(1.7)** | (37.0) | **(1.4)** | (36.3) |
| | | **(1.8)** | (37.1) | **(1.4)** | (36.3) |
| **Net assets** | | **101.0** | 88.4 | **45.4** | 43.9 |
| **Capital and reserves** | | | | | |
| Called up share capital | 19 | **0.2** | 0.2 | **0.2** | 0.2 |
| Shares to be issued | 20 | **26.7** | 29.5 | **2.0** | 4.6 |
| Share premium | 20 | **52.5** | 48.6 | **52.5** | 48.6 |
| Other reserves | 20 | **21.3** | 13.8 | **0.3** | 0.3 |
| Profit and loss account | 20 | **0.3** | (3.7) | **(9.6)** | (9.8) |
| **Equity shareholders' funds** | | **101.0** | 88.4 | **45.4** | 43.9 |

The notes on pages 35 to 53 form part of these financial statements.

These financial statements were approved by the Board on 28 October 2004.

A McIver
Director

# Consolidated Cash Flow Statement
for the 16 month period ended 31 July 2004

| | Notes | **Period ended 31 July 2004 £m** | Year ended 31 March 2003 £m |
|---|---|---|---|
| Cash inflow in respect of EBITDA | | **18.9** | 14.7 |
| Net working capital movement | | **5.4** | (5.4) |
| Net cash inflow from operating activities | 23a | **24.3** | 9.3 |
| Returns on investment and servicing of finance | 23b | **(1.4)** | (0.6) |
| Taxation | | **-** | – |
| Capital expenditure | 23b | **(3.5)** | (1.9) |
| Acquisitions | 23b | **(27.3)** | (7.9) |
| **Cash outflow before financing** | | **(7.9)** | (1.1) |
| Management of liquid resources | 23b | **1.3** | (6.0) |
| Financing | 23b | **(2.2)** | (0.1) |
| **Decrease in cash in the period** | | **(8.8)** | (7.2) |
| | | | |
| **Reconciliation of net cashflow to movement in net funds** | | | |
| Decrease in cash in the period | | **(8.8)** | (7.2) |
| Cash (inflow)/outflow from increase in liquid resources | 23b | **(1.3)** | 6.0 |
| Cash outflow from decrease in debt | 23c | **2.3** | 3.5 |
| **Movement in net funds resulting from cash flows in period** | | **(7.8)** | 2.3 |
| Loan notes issued to fund acquisition | | **-** | (2.5) |
| Other movements | 23c | **5.9** | 0.3 |
| Movement in net funds in period | | **(1.9)** | 0.1 |
| Net funds at start of period | | **4.5** | 4.4 |
| **Net funds at end of period** | 23c | **2.6** | 4.5 |

# Consolidated Statement of Total Recognised Gains and Losses
for the 16 month period ended 31 July 2004

| | **2004 £m** | 2003 £m |
|---|---|---|
| Profit for the financial period | **5.3** | 1.4 |
| Exchange translation differences on consolidation | **(1.3)** | 0.1 |
| Total recognised gains and losses for the period | **4.0** | 1.5 |

The notes on pages 35 to 53 form part of these financial statements.

# Accounting Policies

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

As explained in the financial review on page 23, measures have been put in place to deal with any short-term cash requirement. Accordingly, the Board consider it appropriate for the financial statements to continue to be drawn up applying the going concern basis.

The principal accounting policies are summarised below. They have all been applied consistently throughout the financial period and the preceding year with the exception of the policy for Casino turnover. Previously, turnover for casino was shown as total value of bets placed. The Group has now adopted the generally accepted method of the net win on casino being shown as turnover (see note 2).

**Basis of consolidation**
The consolidated financial statements incorporate the results of Sportingbet Plc and all of its subsidiary undertakings as at 31 July 2004 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 effective date of acquisition.

**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.

**Merger accounting**
Where merger accounting or merger relief 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.

**Associates**
An entity is treated as an associated undertaking where the Group has a participating interest and exercises significant influence over its operating and financial policy decisions.

In the Group accounts, interests in associated undertakings are accounted for using the equity method of accounting. The consolidated profit and loss account includes the group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings based on audited financial statements. In the consolidated balance sheet, the interests in associated undertakings are shown as the group's share of the identifiable net assets, including any unamortised premium paid on acquisition.

The premium on acquisition is dealt with under the goodwill policy.

**Turnover**
Turnover represents the amounts staked in respect of bets placed on sporting events and net win in respect of bets placed on casino games and rake for poker games that have concluded in the period, plus net commissions invoiced in respect of licensing type agreements.

**Tangible fixed assets**
Tangible fixed assets are stated at cost less accumulated depreciation. 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**
Where, in the opinion of the directors, the Group's expenditure in relation to development of internet activities results in future benefits, these costs are capitalised and amortised over the shorter of three years or the average period of future benefit.

**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**
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 18, short term debtors and creditors are not treated as financial assets or financial liabilities except for currency disclosures.

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

**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 or at contracted rates. 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 period 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.

# Accounting Policies (continued)

### Deferred taxation
Deferred tax is recognised in respect of all material timing differences that have originated but not reversed by the balance sheet date, except for deferred tax assets which are only recognised to the extent that they have either been agreed with the relevant Revenue authority and/or the Group anticipates making sufficient suitable taxable profits in the near future.

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

### Pension costs
For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

### Leases
Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

# Notes to the Financial Statements

### 1 Turnover and profit on ordinary activities before taxation

The Group's turnover and profit 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. The Company has taken advantage of the exemption in the Companies Act 1985, Section 230, not to present its own profit and loss account. Of the Group's profit for the period, a profit of £0.2m (2003: loss of £4.9m) has been dealt with in the Company's financial statements.

### 2 Comparative figures

Turnover in the year ended 31 March 2003 has been restated to reflect the change in accounting policy. The effect of this has been to reduce turnover and cost of sales by £180.7m. There is no change to gross profit or to net assets.

| 3 Segmental information | Continuing operations £m | Acquisitions £m | Total 16 month period ended 31 July 2004 £m | Year ended 31 March 2003 restated £m |
|---|---|---|---|---|
| Turnover | | | | |
| AMER | 811.4 | - | 811.4 | 663.6 |
| EMEA | 216.1 | 2.4 | 218.5 | 92.3 |
| AA | 402.0 | - | 402.0 | 213.7 |
| Total | 1,429.5 | 2.4 | 1,431.9 | 969.6 |
| Cost of sales | (1,312.0) | (2.0) | (1,314.0) | (895.5) |
| Gross profit | 117.5 | 0.4 | 117.9 | 74.1 |
| Net operating expenses | | | | |
| Administration expenses | | | | |
| – excluding goodwill amortisation and exceptional items | (95.9) | (0.3) | (96.2) | (59.5) |
| Administration expenses – exceptional items | (5.1) | - | (5.1) | (1.4) |
| Administration expenses | | | | |
| pre goodwill amortisation (including exceptional items) | (101.0) | (0.3) | (101.3) | (60.9) |
| Administration expenses | | | | |
| – goodwill amortisation | (9.6) | - | (9.6) | (9.6) |
| Net operating expenses (administration expenses) | (110.6) | (0.3) | (110.9) | (70.5) |
| Operating profit | 6.9 | 0.1 | 7.0 | 3.6 |
| Share of operating profit in associate undertaking | | | 0.4 | - |
| Profit on ordinary activities before interest | | | 7.4 | 3.6 |
| Net interest payable | | | (1.4) | (0.7) |
| Other finance charges | | | (0.6) | (1.5) |
| Profit on ordinary activities before taxation | | | 5.4 | 1.4 |
| Net assets | | | | |
| AMER | | | 55.3 | 36.9 |
| EMEA | | | 43.3 | 44.5 |
| AA | | | 2.4 | 7.0 |
| | | | 101.0 | 88.4 |

# Notes to the Financial Statements (continued)

| **4 Exceptional items** | **16 month period ended 31 July 2004 £m** | Year ended 31 March 2003 £m |
|---|---|---|
| Legal and professional fees | **(1.8)** | – |
| Provision against amounts due from payments processors | **(3.3)** | – |
| Integration and reorganisation costs | **–** | (0.2) |
| Bad debt provision | **–** | (1.2) |
| | **(5.1)** | (1.4) |

Legal and professional fees relate principally to the fees associated with the re-negotiation of the Sportsbook earnout and offer discussions at the beginning of the financial period. The provision against amounts due from payment processors relates to payment processors whose agreements have been terminated. As a result there is some uncertainty as to the degree of recoverability of the aforementioned debt. Bad debt provision in 2003 relates to the write off of a court imposed Australian bad debt and associated legal costs, which is the subject of an appeal (see note 25).

| **5 Profit on ordinary activities before taxation** | **2004 £m** | 2003 £m |
|---|---|---|
| Profit on ordinary activities before taxation is stated after charging: | | |
| Amortisation of goodwill | **9.6** | 9.6 |
| Depreciation of tangible fixed assets | **2.3** | 1.5 |
| Operating lease rentals – land and buildings | **0.6** | 0.4 |
| Auditors' remuneration – audit services | **0.2** | 0.2 |
| – non-audit services (generally of a compliance nature) | **0.3** | 0.2 |

Auditors' remuneration includes £25,000 (2003: £20,000) in respect of the Company.

| **6 Employees and staff costs** | **2004 No.** | 2003 No. |
|---|---|---|
| The average number of persons employed by the Group during the period was as follows: | | |
| EMEA | **170** | 65 |
| AMER | **302** | 265 |
| AUS | **42** | 40 |
| | **514** | 370 |

| | **2004 £m** | 2003 £m |
|---|---|---|
| Employee costs including Directors were as follows: | | |
| Wages and salaries | **16.6** | 10.0 |
| Pensions and social security costs | **2.1** | 1.1 |
| | **18.7** | 11.1 |

| **6 Employees and staff costs (continued)** | **16 month period ended 31 July 2004 £m** | Year ended 31 March 2003 £m |
|---|---|---|
| Directors' remuneration | | |
| Salary and fees | **1.1** | 0.7 |
| Bonus | **0.4** | 0.1 |
| Pension | **0.1** | 0.1 |
| | **1.6** | 0.9 |

There were 3 (2003: 4) Directors in the Company's defined contribution pension scheme.
Further disclosures on the remuneration of each individual director are given in the Remuneration Report.

| **7 Net interest payable** | **2004 £m** | 2003 £m |
|---|---|---|
| Interest on convertible loan stock | **(0.2)** | (0.7) |
| Bank loans and overdrafts | **(1.1)** | – |
| Finance leases | **(0.1)** | – |
| Other interest payable | **(0.1)** | (0.1) |
| | **(1.5)** | (0.8) |
| Interest receivable | **0.1** | 0.1 |
| | **(1.4)** | (0.7) |

Interest of £Nil (2003: £0.1m) was paid to the vendors of Internet Opportunity Entertainment Limited under loan note arrangements.

| **8 Other finance charges** | **2004 £m** | 2003 £m |
|---|---|---|
| Finance charge on discounting of deferred consideration | **(0.6)** | (1.5) |

The finance charge on the discounting of deferred consideration arises from the requirement under FRS7 to discount consideration, deferred in respect of acquisitions, back to current values.

# Notes to the Financial Statements (continued)

**9 Taxation**

The tax charge for the period is lower than the standard UK rate of corporation tax as explained below:

| | **2004 £m** | 2003 £m |
|---|---|---|
| Profit on ordinary activities before taxation | **7.0** | 1.4 |
| Profit assessed at UK corporation tax rate | **2.1** | 0.4 |
| Expenses not allowed for tax purposes (primarily goodwill amortisation) | **3.7** | 3.8 |
| Effect of lower tax rates on overseas earnings net of losses | **(5.8)** | (4.2) |
| Current tax charge for the period | **-** | - |

There are significant taxation losses available to the Group. Utilisation of these losses is contingent upon agreement with the relevant Revenue authorities.

**10 Earnings per ordinary share**

The calculation of basic earnings per share is based on the profit on ordinary activities after taxation attributable to shareholders of Sportingbet Plc of £5.3m (2003: £1.4m) and the weighted average number of shares in issue during the period of 201,290,345 (2003: 174,649,840).

The calculation of diluted earnings per share is based on the profit for the financial year of £5.3m (2003: £1.4m) and the weighted average number of shares in issue, adjusted to assume the exercise of options over shares and the effect of dilutive earn out shares to be issued, of 293,026,616 (2003: 302,164,280).

Adjusted earnings per ordinary share before goodwill and exceptionals excludes amortisation of goodwill of £9.6m (2003: £9.6m) and exceptional charges of £5.1m (2003: £1.4m).

| **11 Intangible assets – Goodwill** | £m |
|---|---|
| Group | |
| Cost | |
| At 1 April 2003 | 142.1 |
| Additions (see note 21(c)) | 0.7 |
| Other movements | 8.0 |
| **At 31 July 2004** | **150.8** |
| Amortisation | |
| At 1 April 2003 | (17.0) |
| Charge for the period | (9.6) |
| **At 31 July 2004** | **(26.6)** |
| Net book value | |
| **At 31 July 2004** | **124.2** |
| At 31 March 2003 | 125.1 |

The other movements arose primarily as a result of changes in the underlying value of the amount payable due to foreign currency movements and movements in the price of shares to be issued to satisfy the contingent consideration sums. Details of acquisitions in the year are set out in note 21.

| **12 Tangible assets** | Fixtures, fittings and equipment £m | Motor vehicles £m | Computer Software and equipment £m | Total £m |
|---|---|---|---|---|
| Group | | | | |
| Cost as at 1 April 2003 | 2.1 | 0.1 | 6.1 | 8.3 |
| Additions | 0.4 | – | 3.5 | 3.9 |
| Disposals | – | – | (1.5) | (1.5) |
| Exchange adjustments | (0.1) | – | (0.2) | (0.3) |
| **As at 31 July 2004** | **2.4** | **0.1** | **7.9** | **10.4** |
| Depreciation | | | | |
| As at 1 April 2003 | 1.0 | 0.1 | 2.9 | 4.0 |
| Charge for the period | 0.3 | – | 2.0 | 2.3 |
| Disposals | – | – | (1.4) | (1.4) |
| Impairment | 0.4 | – | – | 0.4 |
| Exchange adjustments | – | – | (0.1) | (0.1) |
| **As at 31 July 2004** | **1.7** | **0.1** | **3.4** | **5.2** |
| Net book value | | | | |
| **As at 31 July 2004** | **0.7** | **–** | **4.5** | **5.2** |
| As at 31 March 2003 | 1.1 | – | 3.2 | 4.3 |

| | Fixtures, fittings and equipment £m | Computer equipment £m | Total £m |
|---|---|---|---|
| Company | | | |
| Cost | | | |
| As at 1 April 2003 | 0.9 | 0.1 | 1.0 |
| Additions | – | 0.1 | 0.1 |
| **As at 31 July 2004** | **0.9** | **0.2** | **1.1** |
| Depreciation | | | |
| As at 1 April 2003 | 0.4 | 0.1 | 0.5 |
| Charge for the period | – | 0.1 | 0.1 |
| Impairment | 0.4 | – | 0.4 |
| **As at 31 July 2004** | **0.8** | **0.2** | **1.0** |
| Net book value | | | |
| **As at 31 July 2004** | **0.1** | **–** | **0.1** |
| As at 31 March 2003 | 0.5 | – | 0.5 |

The net book value of tangible fixed assets for the Group includes an amount of £0.3m (2003 – £0.4m) of assets held under finance leases. The Company had no assets under such leases at either period end.

# Notes to the Financial Statements (continued)

| **13 Investments** | Shares in associated undertakings £m |
|---|---|
| Group | |
| Cost | |
| As at 1 April 2003 | – |
| Additions (see below) | 2.2 |
| **As at 31 July 2004** | **2.2** |
| Share of retained profits | |
| As at 1 April 2003 | – |
| Profit for period | 0.5 |
| **As at 31 July 2004** | **0.5** |
| Net book value | |
| **As at 31 July 2004** | **2.7** |
| As at 31 March 2003 | – |

| | Shares in subsidiary undertakings £m | Shares in associated undertakings £m | Total £m |
|---|---|---|---|
| Company | | | |
| Investment in subsidiary undertakings | | | |
| As at 1 April 2003 | 98.2 | – | 98.2 |
| Acquisitions | 0.8 | 2.2 | 3.0 |
| Other movements | 0.4 | – | 0.4 |
| **As 31 July 2004** | **99.4** | **2.2** | **101.6** |

The other movements arise primarily as a result of changes in the underlying value of the amount payable due to foreign currency movements and movements in the price of shares to be issued to satisfy the contingent consideration sums.

Acquisitions of subsidiaries are stated net of merger relief and adjustments arising for discounting on contingent consideration.

On 4 April 2003, the Group acquired 5,000,000 shares in World Gaming Plc, the parent company of the software licensing company which provides the online platform for the Group's Americas Division. This acquisition included the right to acquire a further 7,500,000 shares at US$0.12 per share any time prior to and including 4 April 2005. This shareholding was increased to 29.5% in July 2003. The fair value of consideration as at 31 July 2004 comprised:

| | £m |
|---|---|
| Cash | 2.2 |
| Consideration (including expenses of £300,000) | 2.2 |

### 13 Investments (continued)

The following principal trading subsidiaries were wholly owned at 31 July 2004.

| Directly owned | Activity | Country of incorporation or registration |
|---|---|---|
| Eurosportwetten Limited | On-line and telephone betting | England |
| Interactive Sports Limited | On-line and telephone betting | England |
| Fincorp Propiedades F.P. S.A. | Administrative services | Costa Rica |
| Sportingbet Australia Pty Limited | On-line and telephone betting | Australia |
| Internet Opportunity Entertainment Limited | On-line and telephone betting | Antigua & Barbuda |
| Sporting Odds Limited | On-line and telephone betting | England |
| MLB Limited | Contract Call Centre | Ireland |

For all undertakings listed above, the country of incorporation is the same as the country of operation, except Eurosportwetten Limited which operates in Austria.

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| **14 Debtors** | **£m** | £m | **£m** | £m |
| Due within one year: | | | | |
| Other debtors | **6.0** | 8.6 | **0.7** | – |
| Prepayments and accrued income | **2.3** | 1.2 | **0.5** | 0.6 |
| Owed by subsidiary undertakings | **–** | – | **6.2** | 8.9 |
| | **8.3** | 9.8 | **7.4** | 9.5 |

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.

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| **15 Creditors** | **£m** | £m | **£m** | £m |
| **Amounts falling due within one year** | | | | |
| Bank Overdrafts | **10.3** | – | **10.3** | – |
| Bank Loans | **7.0** | – | **7.0** | – |
| Trade creditors | **2.3** | 1.2 | **0.2** | 0.1 |
| Other creditors | **18.3** | 1.9 | **15.7** | 0.2 |
| Customer liabilities | **15.8** | 12.8 | **–** | – |
| Tax and social security | **0.3** | 0.3 | **0.2** | 0.1 |
| Accruals and deferred income | **3.6** | 2.1 | **1.6** | 0.6 |
| Obligations under finance leases | **0.3** | 0.2 | **–** | – |
| Convertible debt: | | | | |
| Convertible redeemable | | | | |
| Loan notes | **–** | 2.5 | **–** | 2.5 |
| Loan stock 2003 (unsecured) | **–** | 6.5 | **–** | 6.5 |
| Loan stock 2004 (unsecured) | **–** | 6.3 | **–** | 6.3 |
| Due to subsidiary undertakings | **–** | – | **28.1** | 13.8 |
| | **57.9** | 33.8 | **63.1** | 30.1 |

Other creditors include re-scheduled amounts due to the vendors of Internet Opportunity Entertainment Limited of £15.7m which is secured against certain assets of the Group (2003: £Nil) and an earn out payment due to the vendors of of the Number One Betting Shop of £Nil (2003: £0.2m).

The loan note of £2.5m in 2003 was payable to the vendors of Sporting Odds Limited concluding in October 2003.

Interest of £0.2m (2003: £0.7m) was paid during the period in respect of the 10% convertible loan stock 2003. It was issued at par on 27 July 2000 and was redeemed in cash to term in July 2003.

# Notes to the Financial Statements (continued)

**15 Creditors (continued)**

The non-interest bearing loan stock 2004 was issued as part consideration for the Sportsbook acquisition and was redeemable at par or convertible into a maximum of 7,111,434 shares between 1 August 2003 and 31 July 2004 at the option of the loan note holder. As part of the settlement agreement reached in July 2003 with the vendors of Internet Opportunity Entertainment Limited, the loan note payment was rescheduled.

| **16 Creditors** | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **£m** | £m | **£m** | £m |
| **Amounts falling due after more than one year** | | | | |
| Obligations under finance leases | **0.1** | 0.1 | **–** | – |
| | **0.1** | 0.1 | **–** | – |

| **17 Provisions for liabilities and charges** | Contingent consideration £m | Chargeback provision £m | Long Term Incentive Plan £m | Total £m |
|---|---|---|---|---|
| Group | | | | |
| At 1 April 2003 | 36.3 | 0.7 | – | 37.0 |
| (Released)/charged to profit and loss account | – | (0.4) | 0.6 | 0.2 |
| Transfer to creditors within one year | (34.9) | – | – | (34.9) |
| Other movements | (0.6) | – | – | (0.6) |
| Finance charge on discounting contingent consideration | 0.6 | – | – | 0.6 |
| Exchange adjustments | (0.6) | – | – | (0.6) |
| **At 31 July 2004** | **0.8** | **0.3** | **0.6** | **1.7** |

| | Contingent consideration £m | Chargeback provision £m | Long Term Incentive Plan £m | Total £m |
|---|---|---|---|---|
| Company | | | | |
| At 1 April 2003 | 36.3 | – | – | 36.3 |
| Charged to profit and loss account | – | – | 0.6 | 0.6 |
| Transfer to creditors within one year | (34.9) | – | – | (34.9) |
| Other movements | (0.6) | – | – | (0.6) |
| Finance charge on discounting contingent consideration | 0.6 | – | – | 0.6 |
| Exchange adjustments | (0.6) | – | – | (0.6) |
| **At 31 July 2004** | **0.8** | **–** | **0.6** | **1.4** |

The contingent consideration provision is in respect of future payments falling due in respect of the acquisition of Number One Betting Shop. The Number One Betting Shop earn out was concluded on 31 March 2003. Further payments of £0.8m are contingent upon the outcome of ongoing litigation in Australia (see note 25).

The Sportsbook Group earn out was achieved in full by July 2003 and the amount payable was renegotiated and settled.

The finance charge on discounting of deferred consideration arose from the requirement under FRS7 to discount consideration, deferred in respect of acquisitions, back to current values.

Other movements relate to net cash payments made of £0.6m to the vendors of Number One Betting Shop.

## 18 Financial instruments

| **Financial assets 2004** | Financial assets at floating rate of up to 4.5% Total £m |
|---|---|
| Currency | |
| Sterling | 1.4 |
| US dollar | 18.1 |
| Other | 0.8 |
| | 20.3 |

| **Financial assets 2003** | |
|---|---|
| Currency | |
| Sterling | 2.6 |
| US dollar | 16.7 |
| Other | 0.8 |
| | 20.1 |

| | Fixed rate financial liabilities | | | | |
|---|---|---|---|---|---|
| **Financial liabilities 2004** | Weighted average interest rate % | Number of years for which rate is fixed | Amount £m | Floating rate financial liabilities £m | Total £m |
| Currency | | | | | |
| US dollar | Nil | – | 13.8 | – | 13.8 |
| US dollar | Nil | – | 1.9 | – | 1.9 |
| Australian dollar | Nil | – | 0.8 | – | 0.8 |
| Australian dollar | 5.6 | – | 0.1 | – | 0.1 |
| Sterling | 5.7 | – | – | 7.0 | 7.0 |
| Sterling | 6.0 | – | – | 10.3 | 10.3 |
| Sterling | 7.4 | – | 0.3 | – | 0.3 |
| | | | 16.9 | 17.3 | 34.2 |

| **Financial liabilities 2003** | | | | | |
|---|---|---|---|---|---|
| Currency | | | | | |
| US dollar | Nil | – | 35.5 | – | 35.5 |
| US dollar | Nil | – | 6.3 | – | 6.3 |
| Australian dollar | Nil | – | 1.5 | – | 1.5 |
| Sterling | 10.0 | 3 | 6.5 | – | 6.5 |
| Sterling | 4.4 | – | – | 2.5 | 2.5 |
| Sterling | 8.5 | – | 0.3 | – | 0.3 |
| | | | 50.1 | 2.5 | 52.6 |

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.

# Notes to the Financial Statements (continued)

**18 Financial instruments (continued)**

The floating rate borrowings as at 31 July 2004 are in respect of a bank loan (£7.0m) bearing an interest rate of 1.5% above LIBOR and overdraft facility (£10.3m) bearing an interest rate of 1.75% above the base rate.

The floating rate borrowings as at 31 March 2003 are in respect of a loan note issued to the vendors of Sporting Odds Limited payable in October 2003 bearing an interest rate of 1.0% above LIBOR.

The Nil rate borrowings are in respect of rescheduled earnout payments owing to the vendors of Internet Opportunity Entertainment Limited, as detailed in note 15.

The fixed rate borrowings as at 31 March 2003 are in respect of the convertible redeemable loan stock as detailed in note 15.

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 £20.3m at 31 July 2004 (2003: £20.1m) are held on deposits bearing interest at call rates. There are no other financial assets.

| Maturity of financial liabilities | Contingent consideration 2004 £m | Bank loans & overdrafts 2004 £m | Re-scheduled earnout 2004 £m | Finance leases 2004 £m | Total 2004 £m | Total 2003 £m |
|---|---|---|---|---|---|---|
| The maturity profile of the Group's financial liabilities at 31 July 2004 was as follows: | | | | | | |
| In one year or less | **0.8** | **17.3** | **15.7** | **0.3** | **34.1** | 52.5 |
| In more than one year but not more than two years | – | – | – | **0.1** | **0.1** | 0.1 |
| | **0.8** | **17.3** | **15.7** | **0.4** | **34.2** | 52.6 |

| Borrowing facilities | 2004 £m | 2003 £m |
|---|---|---|
| The Group had undrawn committed borrowing facilities at 31 July 2004, as follows: | | |
| Expiring in one year or less | – | 0.5 |
| Expiring in more than one year but not more than two years | – | – |
| Expiring in more than two years | – | 0.5 |
| | – | 1.0 |

## 18 Financial instruments (continued)

### Currency exposures

As explained within the Financial Review, the Group's objectives in managing the currency exposures arising from its net investments overseas (in other words, its structural currency exposures) are to maintain a low cost of borrowings and to retain some potential for currency-related appreciation while partially hedging against currency depreciation. Gains and losses arising from these structural currency exposures are recognised in the statement of total recognised gains and losses.

The table below shows the Group's currency exposures; in other words, those transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or 'functional') currency of the operating unit involved, other than certain non-sterling borrowings treated as hedges of net investments in overseas operations. As at 31 July 2004 those exposures were as follows:

| | Net foreign currency monetary assets | | | | |
|---|---|---|---|---|---|
| Functional currency of Group operation | US dollar £m | Euro £m | HK dollar £m | Other £m | Total £m |
| Sterling | 0.1 | 0.2 | 0.2 | 0.2 | 0.7 |

The exposures at 31 March 2003 for comparison purposes were as follows:

| | Net foreign currency monetary assets | | | | |
|---|---|---|---|---|---|
| Functional currency of Group operation | US dollar £m | Australian dollar £m | HK dollar £m | Other £m | Total £m |
| Sterling | 1.9 | 0.1 | 0.1 | 0.3 | 2.4 |

Narrative disclosures on the Group treasury policy are given on pages 22 and 23.

| 19 Share capital | 2004 £000s | 2003 £000s |
|---|---|---|
| Authorised: | | |
| 1,000 million (2003: 1,000 million) ordinary shares of 0.1p each | **1,000** | 1,000 |
| Allotted, issued and fully paid: | | |
| At 31 March 2003: 169,692,075 shares of 0.1p each | **170** | 152 |
| Issues in respect of acquisitions: 42,351,374 shares | **42** | 18 |
| Issues in respect of exercised share options: 307,500 shares | **–** | – |
| At 31 July 2004: 212,350,949 shares of 0.1p each | **212** | 170 |

# Notes to the Financial Statements (continued)

**19 Share capital (continued)**

At 31 July 2004 the following share options were outstanding in respect of ordinary shares:

| Date of grant | Ordinary shares of 0.1 pence | Period of option | Exercise price (p) |
|---|---|---|---|
| Year ended 31 March 1999 | 139,000 | July 2000 – July 2005 | 6.5 |
| Year ended 31 March 2000 | 545,000 | August 2001 – December 2006 | 33-91 |
| Year ended 31 March 2001 | 575,832 | April 2002 – February 2008 | 100.5-145 |
| Year ended 31 March 2002 | 250,000 | August 2004 – August 2007 | 105 |
| Year ended 31 March 2003 | 4,563,326 | July 2004 – December 2009 | 32-120.5 |
| August 2003 | 103,485 | July 2005 – July 2010 | 84.2 |
| December 2003 | 1,620,000 | December 2006 – December 2010 | 39.5 |
| December 2003 | 100,000 | December 2006 – December 2010 | 36.6 |
| January 2004 | 3,789,375 | January 2007 – January 2011 | 49 |
| February 2004 | 100,000 | February 2007 – January 2011 | 39.5 |
| April 2004 | 300,000 | April 2007 – March 2011 | 81 |

At 31 July 2004 there were 12,086,018 options over ordinary shares outstanding, 2,250,000 of which relate to Directors, details of which can be found in the Remuneration Report on page 28.

| **20 Reserves** | Share premium account £m | Shares to be issued £m | Other reserve £m | Profit and loss account £m |
|---|---|---|---|---|
| Group | | | | |
| At 1 April 2003 | 48.6 | 29.5 | 13.8 | (3.7) |
| Acquisitions | 3.8 | (2.8) | – | – |
| Merger relief on acquisitions | – | – | 7.5 | – |
| Employee share options | 0.1 | – | – | – |
| Retained profit | – | – | – | 5.3 |
| Foreign currency exchange | – | – | – | (1.3) |
| **At 31 July 2004** | **52.5** | **26.7** | **21.3** | **0.3** |
| Company | | | | |
| At 1 April 2003 | 48.6 | 4.6 | 0.3 | (9.8) |
| Acquisitions | 3.8 | (2.6) | – | – |
| Employee share options | 0.1 | – | – | – |
| Loss for period | – | – | – | 0.2 |
| **At 31 July 2004** | **52.5** | **2.0** | **0.3** | **(9.6)** |

The movement in Group shareholders' funds of £12.6m (2003: £42.5m) is wholly represented by the movements shown in reserves and share capital at notes 19 and 20.

The movement in shares to be issued for the Group represents a combination of the fair value of shares issued during the year of £9.8m and adjustments to the fair value of shares to be issued following changes in the Company's share price and foreign exchange movements of £7.0m.

## 21 Acquisitions
### Acquisitions made in previous years

#### (a) Internet Opportunity Entertainment Limited
The entire issued share capital of Internet Entertainment Opportunity Limited (the Sportsbook business) was acquired on 31 July 2001. The fair value of consideration as at 31 March 2003 comprised:

| | | £m |
|---|---|---|
| Cash | | 11.7 |
| Shares | | 10.7 |
| Loan note | | 8.5 |
| Deferred consideration | – convertible loan note | 6.3 |
| Contingent consideration | – cash | 35.5 |
| | – shares | 24.9 |
| | | 97.6 |

Deferred and contingent cash consideration was denominated in US dollars and therefore subject to exchange rate fluctuation until such time as consideration has been paid. The fair value of contingent consideration to be satisfied by the issue of shares is subject to both exchange rate fluctuations and movement in the Company's share price. The fair value of consideration was fixed at 31 July 2003 when final settlement agreements were agreed.

The fair value of consideration as at 31 July 2004 comprised:

| | | £m |
|---|---|---|
| Cash | | 39.2 |
| Shares | | 18.1 |
| Loan Note | | 8.5 |
| Rescheduled earnout | – cash | 13.8 |
| | – shares | 24.7 |
| | | 104.3 |

Under the terms of the earn out arrangements, the ultimate vendors of Internet Opportunity Entertainment Limited retained certain rights relating to the trading of that business. The ultimate vendors have received payments of reimbursed expenses of £0.4m and payments under 'white label' arrangements of £1.9m. Payments under 'white label' arrangements have been on similar terms to other white label arrangements.

During the year, the Group entered into a consultancy agreement with the ultimate vendors of IOE. Under this the Group will pay a fixed fee of $500,000 per annum (including reimbursed expenses) and an annual incentive bonus of 7.5% on US profits in excess of $25m. This agreement expires in January 2007. Under this arrangement the Group paid a fixed fee of £0.3m and has accrued a further £0.3m in relation to the annual incentive bonus.

# Notes to the Financial Statements (continued)

**21 Acquisitions (continued)**

**(b) Number One Betting Shop Limited**

The entire issued share capital of Number One Betting Shop Limited was acquired on 14 March 2001. The fair value of consideration as at 31 March 2003 comprised:

| | £m |
|---|---|
| Cash | 12.2 |
| Shares | 12.0 |
| Contingent consideration – cash | 1.5 |
| – shares | 4.6 |
| | 30.3 |

Deferred and contingent cash consideration was denominated in Australian dollars and therefore subject to exchange rate fluctuation until such time as consideration is paid. The fair value of contingent consideration to be satisfied by the issue of shares was subject to both exchange rate fluctuations and movement in the Company's share price. The fair value of consideration was fixed at 31 July 2003 when final settlement agreements were agreed.

The fair value of consideration as at 31 July 2004 comprised:

| | £m |
|---|---|
| Cash | 12.9 |
| Shares | 15.9 |
| Contingent consideration – cash | 0.8 |
| – shares | 2.0 |
| | 31.6 |

**Acquisitions made in the period**

**(c) Eurosportwetten Limited**

The Company acquired a 60% share of the issued share capital of Eurosportwetten Limited in August 2002. The whole of the purchase price has been treated as goodwill as both the book and fair values of the assets acquired were negligible. The fair value of consideration as at 31 March 2003 comprised:

| | £m |
|---|---|
| Consideration comprises: | |
| Cash | 0.2 |
| Creditors | 0.2 |
| Consideration (including expenses of £30,000) | 0.4 |

## 21 Acquisitions (continued)

The Company increased its 60% share of the issued share capital of Eurosportwetten Limited to 100% in February 2004. The consideration for the further 40% share holding was in exchange for debt owed to Eurosportwetten Limited. The fair value of total consideration as at 31 July 2004 comprised:

| | £m |
|---|---|
| Consideration comprises: | |
| Cash | 0.4 |
| Creditors | 0.8 |
| Consideration (including expenses of £36,000) | 1.2 |

The whole of the purchase price has been treated as goodwill.

| **22 Commitments under operating leases** | **2004 £m** | 2003 £m |
|---|---|---|
| At 31 July 2004 the Group had annual commitments under non-cancellable operating leases as follows: | | |
| Land and buildings | | |
| expiring within 1 year | **0.7** | 0.4 |
| expiring within 1-2 years | **0.4** | 0.4 |
| expiring within 2-5 years | **1.3** | 1.0 |
| | **2.4** | 1.8 |

The leases are subject to periodic rent reviews.

| **23 Cash flows** | **2004 £m** | 2003 £m |
|---|---|---|
| **(a) Reconciliation of operating profit to net cash flow from operating activities** | | |
| Operating profit | **7.0** | 3.6 |
| Amortisation – goodwill | **9.6** | 9.6 |
| Depreciation | **2.3** | 1.5 |
| Decrease/(increase) in debtors | **1.8** | (3.2) |
| Increase/(decrease) in creditors | **4.9** | (2.3) |
| Unrealised translation differences | **(1.3)** | 0.1 |
| Net cash inflow from operating activities | **24.3** | 9.3 |

# Notes to the Financial Statements (continued)

| **23 Cash flows (continued)** | **2004 £m** | 2003 £m |
|---|---|---|
| **(b) Analysis of cash flows for headings netted in the cash flow statement** | | |
| Returns on investments and servicing of finance | | |
| Interest received | **0.1** | 0.1 |
| Interest paid | **(1.4)** | (0.7) |
| Interest element of finance leases | **(0.1)** | – |
| Net cash outflow for returns on investments and servicing of finance | **(1.4)** | (0.6) |
| Capital expenditure | | |
| Purchase of tangible fixed assets | **(3.5)** | (1.9) |
| Net cash outflow for capital expenditure | **(3.5)** | (1.9) |
| Acquisitions | | |
| Cash consideration and other sums paid to vendors | **(25.1)** | (10.3) |
| Cash acquired with subsidiary undertakings | **–** | 2.4 |
| Investment in associated undertakings | **(2.2)** | – |
| Net cash outflow for acquisitions | **(27.3)** | (7.9) |
| Management of liquid resources | | |
| Decrease/(increase) in short term deposits | **1.3** | (6.0) |
| Net cash inflow/(outflow) from management of liquid resources | **1.3** | (6.0) |
| Financing | | |
| Exercise of share options | **0.1** | – |
| New bank loan | **10.0** | – |
| Repayment of bank loan | **(3.0)** | – |
| Repayment of loan notes | **(9.0)** | – |
| Capital element of finance lease | **(0.3)** | (0.1) |
| Net cash outflow from financing | **(2.2)** | (0.1) |

| 23 Cash flows (continued) | At 31 March 2003 £m | Cash flows £m | Other movements £m | **At 31 July 2004 £m** |
|---|---|---|---|---|
| **(c) Reconciliation of net cash flow to movement in net funds** | | | | |
| Cash at bank and in hand | 9.3 | 1.5 | – | **10.8** |
| Liquid resources | 10.8 | (1.3) | – | **9.5** |
| | 20.1 | 0.2 | – | **20.3** |
| Bank overdrafts | – | (10.3) | | **(10.3)** |
| | 20.1 | (10.1) | – | **10.0** |
| Debt due within 1 year | (15.3) | 2.0 | 6.3 | **(7.0)** |
| Finance Leases | (0.3) | 0.3 | (0.4) | **(0.4)** |
| | (15.6) | 2.3 | 5.9 | **(7.4)** |
| Total | 4.5 | (7.8) | 5.9 | **2.6** |

Other movements of £6.3m relate to loan notes rescheduled as part of the 'IOE' earnout settlement.

| | **£m** |
|---|---|
| **(d) Net cash outflow arising from acquisitions** | |
| Cash consideration and other sums paid to vendors | **25.1** |
| Cash acquired | **–** |
| Net cash outflow | **25.1** |

### 24 Related parties

Daniel Stewart Securities Plc, a company of which P Dicks is Chairman contributed £500,000 to the 10% July 2003 Convertible Loan Stock. The contribution was made through respective third parties under standard commercial terms. This was repaid in the period.

Daniel Stewart Securities Plc own 244,827 shares in the Company.

During the period, S O'Connor provided marketing consulting services to the Group via Trillium Venture Developments, amounting to £40,000 (2003: £30,000).

### 25 Contingent liabilities

(a) During the year ended 31 March 2003 the Group's Australian subsidiary, Sportingbet Australia Pty Ltd was subject to litigation relating to a high staking customer, inherited through the acquisition of Number One Betting Shop, who had allegedly embezzled funds from his employer. The employer sought to recover these funds from the Australian business for the period it had operated onshore. In March 2003 the court ruled against Sportingbet. This court imposed a bad debt of £1.2m including legal fees which was shown as an exceptional item (see note 4). The Group is appealing against the decision and the Directors believe that the Group's case is strong.

(b) The Group is defending a legal claim that monies received by its Australian subsidiaries amounting to AUS $8.5m should be returned as it is alleged the funds deposited had been obtained by the customer fraudulently. The Directors are confident (based on the legal opinion obtained) that the claim will not be successful and therefore no provision has been made at 31 July 2004. In the event that such claims are successful, amounts payable under the Number One Betting Shop earn out arrangement of £0.8m included in contingent consideration and £2.0m included in shares to be issued would not fall due.

### 26 Post balance sheet events

Details of Post Balance Sheet events are disclosed within the Directors' Report on page 27.

# Notice of meeting
for the year ended 31 July 2004

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 17 December 2004 at 10.30 a.m. for the following purposes:

**Ordinary Business**
To consider, and if thought fit, pass the following Ordinary Resolutions:

1. To receive and adopt the Accounts for the year ended 31 July 2004 and the Reports of the Directors and auditors in relation to the same. **Resolution 1**
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 determine their remuneration. **Resolution 2**
3. To re-elect Nigel Terence Payne as a Director. **Resolution 3**
4. To re-elect Sean Stuart O'Connor as a Director. **Resolution 4**
5. To re-appoint Robert Holt as a Director. **Resolution 5**

**Special Business**
To consider, and if thought fit, pass the following resolutions, of which Resolution 6 will be proposed as an ordinary resolution and Resolution 7 will be proposed as a special resolution:

6. That, in substitution for all previous like authorities, which are hereby revoked, pursuant to and in accordance with Section 80 of the Companies Act 1985 the Directors be and hereby generally and unconditionally are authorised to exercise all powers of the Company to allot relevant securities within the terms of the restrictions and provisions following, namely:
   (i) to allot up to an aggregate nominal amount of £6,693 in connection with a convertible asset agreement between the Company and Bayard Management Inc.;
   (ii) to allot up to an aggregate nominal amount of £83,172 in connection with a convertible loan note instrument between the Company and DBS Advisors, Ltd; and
   (iii) to allot (otherwise than pursuant to sub-paragraphs (i) and (ii) of this Resolution 6) up to an aggregate nominal amount of £70,780.

   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 2005.
   For the purposes of this Resolution 6 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 the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired, and words or expressions defined in or for the purposes of Part IV of the Companies Act 1985 shall bear the same meaning herein. **Resolution 6**
7. That pursuant to and in accordance with Section 95 of the Companies Act 1985 the Directors be and are hereby given power to, subject to the passing of Resolution 6 above, allot equity securities for cash pursuant to the general authority conferred upon the Directors in Resolution 6 above as if sub-section (1) of Section 89 of the Companies Act 1985 did not apply to any such allotment, provided that this power here granted shall be limited to:
   (i) 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 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) but subject 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;
   (ii) the allotment of equity securities up to an aggregate nominal amount of £6,693 in connection with a convertible asset agreement between the Company and Bayard Management Inc.;
   (iii) the allotment of equity securities up to an aggregate nominal amount of £83,172 in connection with a convertible loan note instrument between the Company and DBS Advisors, Ltd; and
   (iv) the allotment (otherwise than pursuant to sub-paragraphs (i), (ii) and (iii) of this Resolution 7) of equity securities up to an aggregate nominal amount of £10,617, and 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 2004.

   For the purposes of this Resolution 7 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 and the directors may allot equity securities in pursuance of any such offer or agreement as if such power conferred hereby had not expired, 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 words and expressions defined in or for the purposes of Part IV of the Companies Act 1985 shall bear the same meaning herein. **Resolution 7**
8. That, in addition to the authority referred to in Resolution 6 above, pursuant to and in accordance with Section 80 of the Companies Act 1985 the Directors be and hereby generally and unconditionally are authorised to exercise all powers of the Company to allot relevant securities within the terms of the restrictions and provisions up to an aggregate nominal amount of £9,772 in connection with a share purchase agreement between the Company, Internet Opportunity Entertainment Limited, Platinum Management Services S.A., RGH Holdings Inc. and Bonaire Investments Holdings Limited and others. This authority shall (unless previously revoked, varied or renewed) expire on the fifth anniversary of the date of this resolution.
   For the purposes of this Resolution 8 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 the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired, and words or expressions defined in or for the purposes of Part IV of the Companies Act 1985 shall bear the same meaning herein. **Resolution 8**
9. That pursuant to and in accordance with Section 95 of the Companies Act 1985 the Directors be and are hereby given power to, subject to the passing of Resolution 8 above, 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. This power shall (unless previously revoked, varied or renewed) expire on the fifth anniversary following the passing of this Resolution.
   For the purposes of this Resolution 9 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 and the directors may allot equity securities in pursuance of any such offer or agreement as if such power conferred hereby had not expired, 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 words and expressions defined in or for the purposes of Part IV of the Companies Act 1985 shall bear the same meaning herein. **Resolution 9**

By Order of the Board
D. J. Talisman

28 October 2004
Registered Office:
6th Floor
Transworld House

82-100 City Road
London EC1Y 2BJ

D Talisman LLB ACIS
Company Secretary

Notes:

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders on the register of members of the Company as at 6.00pm on Wednesday 15 December 2004 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 6.00pm on Wednesday 15 December 2004 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. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

3. 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 offices of the Company's Registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. A Form of Proxy must be returned in either of

# Financial summary

| | Year ended 2000 restated £m | Year ended 2001 restated £m | Year ended 2002 restated £m | Year ended 2003 restated £m | 16 month period 2004 £m |
|---|---|---|---|---|---|
| **Turnover** | **27.4** | **236.8** | **869.5** | **969.6** | **1,431.9** |
| **Gross profit** | **0.8** | **14.7** | **60.3** | **74.1** | **117.9** |
| **Operating profit/(loss) before exceptional items and goodwill amortisation** | **(3.2)** | **(2.1)** | **14.3** | **14.6** | **21.7** |
| Exceptional items | (1.8) | (0.5) | (1.5) | (1.4) | (5.1) |
| Goodwill amortisation | – | (1.0) | (6.3) | (9.6) | (9.6) |
| **Operating profit/(loss)** | **(5.0)** | **(3.6)** | **6.5** | **3.6** | **7.0** |
| Share of operating profit in associate undertaking | – | – | – | – | 0.4 |
| **Profit/(loss) on ordinary activities before interest** | **(5.0)** | **(3.6)** | **6.5** | **3.6** | **7.4** |
| Interest and other finance charges | – | (0.6) | (1.5) | (2.2) | (2.0) |
| **Profit/(loss) on ordinary activities before taxation** | **(5.0)** | **(4.2)** | **5.0** | **1.4** | **5.4** |
| **Earnings per share** | | | | | |
| Basic | (4.9p) | (3.6p) | 3.4p | 0.8p | 2.6p |
| Basic adjusted (before goodwill amortisation and exceptional items) | (3.1p) | (2.3p) | 8.7p | 7.1p | 10.0p |
| Diluted adjusted (before goodwill amortisation and exceptional items) | (3.1p) | (2.3p) | 8.3p | 4.1p | 6.8p |

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## Corporate Directory

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