

Directors' report and accounts

for the year ended

31 December 2002



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Directors and advisers

Directors	Sir David Sieff	<i>Non-executive Chairman</i>
	P A D Dubens	<i>Vice Chairman</i>
	E Semel	<i>Chief Executive Officer</i>
	D C Annat	<i>Content Director</i>
	A M Galvin	<i>Finance Director</i>
	A Berger	<i>Non-executive</i>
	H Wagner	<i>Non-executive</i>
Secretary	C Kennedy	
Auditor	KPMG Audit Plc 1 The Embankment Neville Street Leeds LS1 4DW	
AIM Nominated Adviser and Broker	Evolution Beeson Gregory Limited The Registry Royal Mint Court London EC3N 4LB	
Solicitors	S J Berwin 222 Gray's Inn Road London WC1X 8XF	
Registered Office	14 Waterloo Place London SW1Y 4AR	
Registered No.	4134501	
Website	www.ukbetting.com	

Chairman's statement

The Board of ukbetting plc ("ukbetting" or the "Group") announces its first full year results for the year ended 31 December 2002, a year in which the Group consolidated its position as an online gaming and sports content business.

The Board has now completed the consolidation, integration and restructuring of the four businesses acquired in late 2001, as well as the acquisitions of TEAMtalk Media Group plc ("TEAMtalk") and the online betting business of sports.com. The Board now feels that it is in a position to build on these foundations to create a successful gaming and sports content business, which is moving towards profitability. Gaming turnover (including all the turnover relating to the joint venture totalbet.com and annualised for 2001) rose 56% to £42.9 million (2001: £27.6 million), registered customers increased by 119% to 133,493, and following the acquisition of TEAMtalk, content revenues rose substantially from £0.1 million to £3.6 million.

The acquisition of TEAMtalk on 12 July 2002 added a number of new revenue streams, namely in the areas of Short Messaging Service ("SMS"), premium phone lines, content sales and in-store and online radio. Combined with the sportinglife brand, this enhanced the Group's position as a leading provider of sports content both to consumers and to an increasing range of telephony and new media partners. ukbetting's ability to deliver combined text, audio and gaming products across a range of media channels places the Group in a strong position to grow revenues in 2003, with sports content leading directly to an integrated gaming opportunity.

With disposals, integration and the planned rationalisation completed in February 2003 the Group has seen a reduction in its headcount of 39%, representing an annualised overhead cost saving of £2.3 million.

There has been a substantial increase in ukbetting's sports customer base visiting the two websites, with sportinglife.com and TEAMtalk.com generating almost 100 million page impressions per month by the year end (2001: 42 million) and attracting an average of over 3.5 million unique users (2001: 907,000), with a monthly peak of 3.92 million users. This increase in activity has been reflected in a significant increase in advertising revenues, which have grown from £0.1 million in 2001 to £1.2 million in 2002. ukbetting has also provided content to an increasing number of partners with a growing emphasis on mobile telephony. The Group sees the development of 'paid for' value-added content, through ukbetting's own brands in association with mobile partners, as a driver of revenue in 2003. ukbetting currently has relationships with Hutchison's 3, O₂, Orange, T Mobile and Vodafone and currently has gaming products with four of the leading mobile networks.

Chairman's statement

continued

Having brought together a unique combination of content and gaming, ukbetting is now in a position to drive organic growth through the introduction of new, innovative products. For instance, the Group introduced exclusive live in-game betting during November 2002, a product that is proving increasingly popular, turnover has more than doubled month on month with over 1,300 unique customers already playing. This shows the positive effect the introduction of a new product to ukbetting's existing customer base is having on the Group's performance.

The Board is pleased with the achievements ukbetting has made during this period. Since flotation in August 2001, the Group has acquired and successfully integrated six companies, the benefits of which are expected to come through in 2003. ukbetting has great opportunities to develop the business further using the strength of its business model. The content division will continue to drive customers to the gaming sites. The Board believes that the Group's ability to integrate sports content and gaming is an attractive proposition to many partners and customers. The Board remains confident that this integrated approach will allow ukbetting to develop a range of revenue streams that will drive each division towards profitability.

Sir David Sieff

Chairman

2 April 2003

Chief Executive's statement

Introduction

Both ukbetting's content and gaming divisions have made good progress during the past year.

The gaming division comprising the ukbetting.com and totalbet.com brands, saw turnover rise 56% to £42.9 million (including all the turnover relating to the joint venture totalbet.com and annualised for 2001), with its registered customer base more than doubling from 61,000 to over 133,000, with 49,614 customers making a wager during the year.

The sports content division gained critical mass with the addition of TEAMtalk in July 2002 to add to its sportinglife brand. This acquisition brought a number of additional revenue streams including SMS, premium phone lines and in-store and on-line radio, and combined with advertising, this has seen content revenues grow to £3.6 million for the year (2001: £0.1 million). Advertising sales of £1.2 million have benefited from the internet sites' substantial growth in unique users and page impressions, which at year end were over 97 million page impressions per month with an average of 3.5 million unique users per month over the final six months of 2002.

The Group's business model of generating gaming customers through its content sites continues to work effectively and the Group's ability to deliver combined content and gaming products to a range of partners means that both gaming and content divisions are approaching EBITDA positive.

Financial overview

ukbetting's annualised proforma turnover, including joint venture revenue of £7.7 million from totalbet.com, was £46.8 million (2001: £9.2 million). Group turnover was £39.1 million (2001: £5.1 million), of which £3.6 million was generated by the content division.

From 27 May 2002, 100% of the revenues from totalbet are included within ukbetting's results, prior to this date 50% of the turnover was accounted for under the principles of joint venture accounting.

Operating expenses of £11.0 million (2001: £2.8 million) include a full year of the costs of the businesses acquired in 2001 and six months of TEAMtalk and the online business of sports.com. Operating expenses also included reorganisation and other non-recurring costs of £1.4 million relating to the integration of the businesses (see note 5 to the consolidated accounts) and £1.0 million with respect to the amortisation of goodwill.

The deferred contingent consideration payable on the acquisition of ukbetting.com Limited from ENIC has been reassessed in the light of future growth expectations and this has been increased to the maximum level of £3.0 million, to be satisfied in equal proportions of cash and shares of ukbetting plc. This has increased the goodwill arising on the acquisition of ukbetting.com Limited by £723,000 and has consequently increased the goodwill amortisation charge. The actual deferred contingent consideration payable is dependent upon the aggregate cumulative revenue from ukbetting.com's customers in the four years to December 2005.

Chief Executive's statement

continued

Financial overview continued

Another consequence of the review of the deferred consideration has been an increase in the discount rate applied to the cash element of the consideration and £151,000 has been charged to the profit and loss account in 2002 in relation to the unwinding of the discount. Financing costs have also been increased by one-off charges due to the raising of the necessary borrowings to acquire TEAMtalk. The costs amounted to £369,000 and are fully written off in 2002.

EBITDA losses from continuing operations before exceptional items and excluding non-recurring costs are £3.4 million (2001: loss of £1.4 million). Group operating losses before interest and tax are £6.6 million (2001: loss of £2.7 million) and are £8.8 million (2001: loss of £2.6 million) after loss on termination of operations, share of joint venture operating profit, interest and taxation.

The loss reported on the termination of operations reflects the costs associated with the closure of TEAMtalk 252 (a business acquired with TEAMtalk) in July 2002 of £343,000 and a loss of £1,127,000 on the termination of the Sportscard business in August 2002 (including £1.2 million of goodwill written off upon termination).

Losses per share amounted to 19.29p basic (2001: loss of 18.25p) and 19.29p diluted (2001: loss of 18.25p). Adjusted loss per share was 10.65p (2001: loss of 10.67p).

At the end of the year, the consolidated balance sheet showed net assets of £3.0 million (2001: £9.7 million).

Operational review

Both divisions within ukbetting, the content division and the gaming division, operate as individual revenue centres. An important element of the Group's business model is that the content sites generate large numbers of gaming customers. ukbetting's content offering reduces the need for substantial marketing expenditure on the gaming brands and contributed strongly to the Group's 119% growth in gaming customers to over 133,000 registered customers at the year end. In addition, ukbetting has broadened its product offering with a range of both content and gaming products, to drive forward Group revenues in 2003.

As part of the planned ongoing process of cost control, during the year the Group relocated all content staff, with the exception of the specialist satellite division in Liverpool, to one office in Leeds and rationalised both the sports content and gaming software platforms and support staff. The Group acted swiftly to close the loss making radio station TEAMtalk 252 and the Board successfully completed the disposal of the radio assets on 3 February 2003 for a total consideration of €1.4 million. This action has not only resulted in a significant reduction in ukbetting's cost base, but also allowed the Group to focus on key areas of revenue growth.

Gaming division

The number of registered users has more than doubled in the year from 61,000 to over 133,000. Turnover has also grown substantially, rising 56% to £42.9 million, with 49,614 customers placing a bet during the year. Average bet size was £36.70 with average monthly spend of £3.59 per gaming customer. Growth continues at an average of 3,800 customers per month.

Chief Executive's statement

continued

Gaming division continued

The gross margin for the period was 4.2%, and was affected by various liabilities inherited from acquisitions in the period and from lower than expected horse racing margins in the second half of the year. Encouragingly, the percentage of football business (which has consistently better margins) increased steadily throughout 2002 from approximately 20% to 33% of gaming revenues. Margins are expected to improve further as a result of the introduction of new online games including casino, poker, American horse race pools, balls and Tote Pools on ukbetting.com. These new products will all have fixed margins to add to the sports gaming business and can be exploited not only through the gaming brands but also from the Group's two high traffic internet sites sportinglife.com and TEAMtalk.com. The gaming division is also planning the introduction of an integrated call centre in the first half of 2003 based on the recently updated Orbis betting platform. During the course of 2002 ukbetting moved all its gaming brands to a single technology platform and this latest upgrade and recently installed new hardware gives the Group the capacity to expand the business significantly over the next few years, at minimum extra cost.

The gaming division has also benefited from gaining 100% of revenues from the totalbet brand following the amicable separation from the Tote on 26 May 2002. The Group continues to work with the Tote and retains access to Tote horserace pools. In addition, the Group acquired the sports.com online betting business in July 2002, with the benefit that 60% of sports.com's active customers bet on football.

Content division

The successful take-over of TEAMtalk in July 2002 to sit alongside sportinglife in the content division brought new revenue streams to benefit both brands. Advertising has grown dramatically in 2002 to £1.2 million (2001: £0.1 million), but represented just 34% of content turnover alongside new and growing revenue streams such as SMS, audio, premium phone lines and text. The development of integrated audio and text content for new Multimedia Messaging Service ("MMS") channels and the introduction of a 'sports live' online radio channel for third party sports and gaming sites benefited from the investment made by TEAMtalk in recording studios in Leeds.

The Group has successfully grown its unique user base to an average audience of 3.5 million per month over the final six months of 2002, against 907,000 in the corresponding period in 2001 (a 286% increase). At the same time the Group has reduced costs by consolidating all ukbetting's internet sites onto a common technology platform and centralising staff to one site in Leeds. This rationalisation included the closure of the major loss making radio station TEAMtalk 252 in July 2002. Consequently, following completion of the TEAMtalk takeover the Board has now reduced headcount by 39%, equating to an annualised saving of £2.3 million.

One of the strengths of the content division is its broad spread of revenue generating products. In addition to providing sports content to other internet sites such as BT Openworld, AOL and FT.com, it provides a range of SMS, WAP and MMS sports and gaming products to a number of the leading mobile networks including Orange, O₂,

Chief Executive's statement

continued

Content division continued

Hutchison's 3, T Mobile and Vodafone. It also provides sports and gaming text and audio information services and statistical packages to a number of leading internet bookmakers. It is now developing a number of revenue generating own-brand products in the gaming information area, such as the 'Nag Me' SMS alert service that sends text messages to a customer every time their selected horse is running. The division is also providing extensive premium line phone services for football and racing and has recently signed an exclusive arrangement to distribute 'Attheraces' racecourse commentaries via premium rate telephone lines and on the Internet. As part of the existing digital content division, the Group retains a successful in-store broadcast business providing radio services to companies such as ASDA and Moto as well as providing news and sport content via satellite to ships.

Strategy

The Group's cost effective method of growing the gaming customer base through its branded sports content websites has proved to be successful and the Board believes the Group's customer acquisition cost is one of the lowest in the UK market. However, whilst this is still an important marketing function for the content division sites, the division is rapidly exploiting new revenue streams in its own right. These will be developed as own-brand 'paid for' services to customers and in addition we are supplying an increasing number of partners with value-added content, across a wide range of media channels. There is particular emphasis on the growing mobile arena where we are the main text and audio sports content provider for Hutchison's 3 and have relationships with all the other leading networks.

Outlook

2002 was a year of acquisition, integration and rationalisation for ukbetting during which the Group benefited significantly from consolidation within the UK online sports content sector and achieved strong growth in its sports gaming division. ukbetting's major challenge during 2003 will be to offer its growing customer base a more complete service enabling the Group to improve gaming margins and increase content sales. The Board is confident that its cost reduction programme, together with ukbetting's strengthened business activities, should put the Group in a strong position to become cash-flow positive during 2003.

Eric Semel

Chief Executive Officer

2 April 2003

Directors' biographies

Non-executive Chairman

The Hon. Sir David Sieff (*aged 64*) – Non-executive Chairman, Member of the Remuneration, Audit and Compliance Committees

Sir David joined Marks & Spencer plc in 1957 and was an executive director from 1972 to 1997, and a non-executive director from 1997 to July 2001. He is non-executive chairman of FIBI Bank (UK) plc and Newbury Racecourse plc. He is a member of the Jockey Club and was a director of the British Horseracing Board and a member of the Horserace Totalisator Board. Sir David was chairman of Racing Welfare Charities and the Stable Lads Welfare Trust and President of the Racehorse Owners Association. In addition, he was the first chairman of the National Lottery Charities Board, (now The Community Fund) and a member of the National Board for Crime Prevention.

Executive Directors

Peter Adam Daiches Dubens (*aged 36*) – Vice Chairman

Peter Dubens has experience in the start-up and development of business both in the public and private sectors. He is a founding director of Paradigm Media Investments PLC, which listed on AIM in March 2000, a non-executive director of Stirling Group plc which is a sourcing and manufacturing company listed on the Official List of the UK Listing Authority, a non-executive director of GX Networks PLC, a business to business voice and data service provider and co-founder of Avocet Capital Management Ltd, a European technology hedge fund management business. Peter is also a director of a number of privately held companies.

Eric Semel (*aged 34*) – Chief Executive Officer

Eric Semel combines expertise in gaming and entertainment with a reputation for pioneering work in computer on-line sites. Eric has a variety of experience including working for Giant/Warner Bros Label Records, where he refined his marketing and management skills. Moving into the gaming industry in 1995, Eric applied his knowledge to The Mirage hotel and casino in Las Vegas, progressing from Management Associate to Casino Marketing Credit Executive. Subsequently he joined The Bellagio hotel and casino, where he became assistant director of Casino Marketing. Eric's consultancy work included a short-term contract with Entertainment Media Ventures, a venture capital fund, which invests in the areas of entertainment and gaming.

David Christie Annat (*aged 58*) – Content Director

David Annat joined the Group with the acquisition of Sporting Life (UK) Limited where he was managing director and has brought to the Board a wealth of experience in the sports content business. During the 1990's he was managing director of Trinity Mirror's sports division, managing director of Sporting Life Newspaper and was responsible for the acquisition of the Racing Post. In 1996 he founded PA Sporting Life Limited, a joint venture between Trinity Mirror and the Press Association and set up the first on-line betting platform in the UK in June 1998. Prior to this David had a number of senior management roles in retail operations.

Directors' biographies

continued

Executive Directors continued

Andrew Michael Galvin ACA (aged 35) – Finance Director, Chairman of the Compliance Committee

Andrew Galvin is a qualified chartered accountant and joined the Group with the acquisition of TEAMtalk Media Group plc. He has experience at finance director level in the sports content arena and also spent five years within Motherwell Bridge Holdings Limited as subsidiary finance director. Andrew qualified as a chartered accountant in 1992 and spent seven years in the accountancy profession before moving into industry. Andrew brought a detailed understanding of the TEAMtalk business to ukbetting and this assisted greatly in the successful integration of this acquisition into the Group.

Non-executive Directors

Alex Berger (aged 41) – Chairman of the Remuneration and Audit Committees and a Member of the Compliance Committee

Alex Berger previously worked for Canal+ and Vivendi, now Vivendi-Universal S.A., for seven years from 1993 before leaving to form his own consulting and investment companies in October 2000. At Canal+, Alex was senior advisor to the chairman and chief executive officer. He conceived and implemented the multi-access portal Vizzavi, as well as participating in the creation and development of Canal+'s thematic interactive channels and technology companies. He also founded and served as chairman and chief executive officer of CanalNumedia, and chief executive officer of VivendiNet. Alex also defined and initiated the strategy that led to the merger of Seagram, Canal+ and Vivendi.

Dr Hans Wagner, MSc PhD (aged 72) – Member of the Remuneration and Audit Committees

Dr Hans Wagner was assistant secretary general of the United Nations Development Programme based in Tehran from 1973 to 1976. Since 1969 he has worked in the telecommunications industry, specifically in wireless communications, he was the chief executive officer and founder of Sonab AB, a manufacturer of mobile phone equipment in partnership with the Swedish government. Hans was also the founder and chairman of Technophone Limited, which later merged with Nokia Technophone Limited, the first manufacturer of mobile phones in the UK. Since 1981 he has been the senior partner of Omega Partners, a worldwide telecommunications consultancy.

Directors' report

The directors present their report and audited accounts for the year to 31 December 2002.

Results and dividend

The results for the year showing a loss before taxation of £8.834 million (2001: £2.597 million) are set out on page 22. The directors do not recommend payment of a dividend.

Principal activity and review of the business

The Company is the holding company for the Group's operating subsidiaries. These subsidiaries are engaged in the provision of gaming activities and the provision of sports content to both business and consumers across multiple delivery channels.

The operations of the Group are reviewed in detail on pages 3 to 8.

Directors

All of the directors, as set out on pages 9 and 10, served throughout the year (except as detailed below). Pursuant to Articles 104 and 110, being eligible, David Annat, Andrew Galvin and one third of the remaining directors offer themselves for election at the forthcoming annual general meeting.

Directors holding office during the year ended 31 December 2002

Peter Dubens

Eric Semel

David Annat – appointed 1 August 2002

Andrew Galvin – appointed 1 October 2002

Alex Berger

Hans Wagner

Sir David Sieff

Alan Pereira – resigned 1 October 2002

Anthony McAuslan – resigned 31 December 2002

The directors' interests in the shares of the Company are set out on pages 16 to 18.

Substantial shareholdings

At 31 March 2003 the directors had been notified of the following substantial interests in the Company's issued ordinary share capital:

	Ordinary Shares	Percentage of issued ordinary share capital
Apollo Nominees a/c PRI	8,380,000	17.69
ENIC New Media Investment Inc*	6,000,000	12.66
Pacific Leisure Entertainment & Media Limited	3,343,596	7.06
Herald Investment Trust**	3,100,000	6.54
Edward C Johnson***	2,666,286	5.63
Eric Semel	2,090,100	4.41
Kanders & Company Inc	2,000,000	4.22

* Held in name of Hargreave Hale Nominees Limited

** Held in name of BNY (OCS) Nominees Limited

*** Held in name of Chase Nominees Limited – Fidelity International Limited

Other than the above interests, the Company has not been notified and is not aware of any other person who is directly or indirectly materially interested in 3% or more, or who has a non-material interest in 10% or more, of the issued ordinary share capital of the Company.

Directors' report

continued

The City Code	The nature of the relationship between Eric Semel and Peter Dubens, both directors of the Company, is such that Eric Semel and Peter Dubens (together the "Concert Party") are deemed to be acting in concert with each other in relation to the Company for the purposes of the City Code. At admission in 2001 the Panel agreed to waive any obligation on the Concert Party or Eric Semel individually, which would otherwise arise as a result of the exercise of the Warrants and Further Subscription Rights, to make, pursuant to Rule 9, a general offer for the Company. The interests of the Concert Party are set out in the directors' interests on pages 16 to 18.
Going concern	The accounts have been prepared on the going concern basis as the directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future.
Payments to suppliers	The Group policy, in relation to all of its suppliers, is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms, providing that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not follow any code or statement on payment practice. In respect of the Group year end trade creditors represent 54 days (2001: 35 days) average purchases and expenses.
Political and charitable contributions	No contributions were made to any political party or for any charitable purposes during the year.
Employee involvement	<p>Within the bounds of commercial confidentiality, staff are kept informed of matters that affect the progress of the Group.</p> <p>All applications for employment are given full and fair consideration for all vacancies. If an existing employee were to become disabled, every effort would be made to ensure that his/her employment with the Group could continue. All persons have equal opportunities for training and career development except where constrained by practical limitations.</p>
Special business at the annual general meeting	<p>The full wording of the resolutions to be tabled at the forthcoming annual general meeting is set out on pages 50 to 52.</p> <p><i>Resolutions numbered 7 and 8 – Authority to allot shares</i></p> <p>Under the Companies Act 1985, the directors of the Company may only allot unissued shares if authorised to do so by the shareholders in a general meeting. Resolution 7 replaces the directors' existing authority by authorising the directors to allot shares limited to nominal value of £157,945.19 being one third of the issued ordinary share capital of the Company at the date of the notice. If new shares are to be issued pursuant to this authority, and are to be paid for in cash, the Companies Act 1985 requires that they must first be offered to existing shareholders, unless the approval of shareholders is given to disapply the relevant provisions of the Act. Resolution 8, in addition to empowering the directors to allot shares by way of rights issue to existing shareholders, also authorises the directors to allot shares for cash, other than to existing shareholders, but limited to a nominal value of £157,945.19 being one third of the issued ordinary share capital of the Company at the date of the notice.</p>

Directors' report

continued

Special business at the annual general meeting

continued

Resolution number 9 – Repurchase of shares

This resolution is proposed to enable the Company to renew its general and unconditional authority (pursuant to Section 166 of the Act) to make market purchases (as defined in Section 163 of the Act) of up to in aggregate 10% of its own ordinary shares of 1p each in the ordinary share capital of the Company. The directors intend to apply this authority only if the repurchase would increase net asset value for shareholders.

Corporate governance

The Company is committed to ensuring high standards of corporate governance. The Principles of Good Governance and Codes of Best Practice cover four main areas, the Board, directors' remuneration, relations with shareholders and accountability and audit. The directors have been, during the course of the year, establishing practices in accordance with the Combined Code provisions issued by the Stock Exchange, as they apply to Smaller Quoted Companies and as set out in Quoted Companies Alliance 2001 Guidelines. Following the acquisition of TEAMtalk, the Board instigated a review of practices across the Group, the outcome of which has resulted in the implementation of Group wide risk management procedures. Furthermore reporting on the procedures and controls will be made to the Compliance Committee at least twice a year.

Directors

The Board comprises four executive and three non-executive directors. The Board considers that all of the non-executive directors are independent and that because of the independence of the Chairman there is insufficient need to appoint a separate senior independent director. There is an agreed procedure for individual directors to obtain independent legal advice and all directors have unrestricted access to the company secretary and Chairman.

There is a clear division of responsibilities between Sir David Sieff as non-executive Chairman and Peter Dubens, Vice Chairman who together with Eric Semel, Chief Executive Officer, are the directors ultimately responsible for the running of the Group's business. The Board has met regularly throughout the year to monitor the Group's performance and to take decisions. Board papers and other relevant information are sent to the Board members in advance of the meetings to enable directors to be properly briefed on topics to be discussed at these meetings.

The Board has established a selection procedure for any future Board appointments and the responsibility is delegated to the Remuneration Committee. In accordance with the guidelines of the Quoted Companies Alliance, the Board does not have a Nomination Committee.

One third of the directors are subject to retirement by rotation every three years. In accordance with best practice each director will serve a three year period before standing for re-election.

Directors' remuneration

The Remuneration Committee comprises all three non-executive directors, chaired by Alex Berger. This Committee is responsible for determining the remuneration packages of the executive directors and for taking decisions regarding the Company's long-term incentive plans.

The Committee retain the appointment of external remuneration consultants.

The remuneration for the non-executive directors is determined by the Board. The remuneration report is set out on pages 15 to 18.

Directors' report

continued

Accountability and audit

The Audit Committee comprises all three non-executive directors. This Committee meets at least twice a year and the Company's auditors have, where appropriate, been in attendance at these meetings. The Committee, chaired by Alex Berger, assists the Board in observing its responsibility for ensuring that the Group's financial systems provide accurate and up to date information on its financial position and that the Company's published financial statements represent a true and fair reflection of this position.

Internal control

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. Following the acquisition of TEAMtalk the Company has been reviewing procedures across the Group in line with the Combined Code and the Turnbull Recommendations.

In 2001 the Board formed a Compliance Committee to provide an ongoing process for identifying, evaluating and managing significant risks faced by the Group. The Committee has met regularly throughout the year. The Committee reports significant operational and financial risk issues to the Board with particular emphasis being given during the year to ensuring that the procedures for the gaming activities were compliant with internal policies and relevant regulatory requirements. Following the review of risk management procedures the Compliance Committee will receive half yearly reports from the management on these issues.

The principal elements of the internal control framework are in place or being established as follows:

(a) Transaction or investment appraisal

An evaluation and risk analysis covering technical, operational and financial issues is being performed as part of the review process for the Compliance Committee. All potential transactions or investments are approved by the Board in accordance with an approved schedule of Matters Reserved for the Board.

(b) Budgeting and forecasting

An annual budgeting system is approved by the directors, which includes monthly profit and loss accounts, balance sheets and cash flows. Forecasts for the full year are updated as considered necessary.

(c) Financial reporting

Monthly management accounts are prepared and reviewed by the Board.

(d) Expenditure

All significant expenditure is referred to the Board for approval.

(e) Management of financial risks

Cash amounts deposited with banks and other financial institutions give rise to credit risk. This risk is managed by reference to the institutions' credit ratings and the Board will regularly review these ratings. The possibility of material loss in this way is therefore considered unlikely.

Directors' report

continued

Internal control continued

Some cash amounts deposited with banks, and trade debtors and creditors are held in foreign currencies. This gives rise to a foreign exchange risk. This risk is managed by the balancing of assets and liabilities within currencies and hedging if appropriate. The possibility of material loss from foreign currency is considered unlikely.

On behalf of the Board, the Compliance Committee reviews the effectiveness of the system of internal control. The system is only designed to manage rather than eliminate the risk of failure to achieve business objectives. Further, it can only provide reasonable and not absolute assurance against material misstatement or loss.

Remuneration report

The principal function of the Remuneration Committee (the "Committee") is to determine, on behalf of the Board, the remuneration packages of the executive directors and to take decisions regarding the Company's long-term incentive plans. The composition of the Committee is given on page 13.

The Committee has followed the provisions in Schedule B of the Combined Code in preparing this report.

Remuneration policy

The Committee aims to ensure that the executive directors are fairly rewarded for their individual contributions to the Company's overall performance. Each director is assessed individually so that his remuneration is directly related to his performance over time and so that a significant proportion of his remuneration package is performance related.

The Committee has obtained market rate salary comparisons with similar companies in the industry sector and recommended pay amounts similar to such rates. The Committee is responsible for recommendations on all elements of directors' remuneration including, in particular, basic salary, annual bonus, long-term incentives and other benefits:

- (i) The basic salary for each director is intended to be competitive, but fair, using information provided both by external and internal sources.
- (ii) Eric Semel and Peter Dubens did not receive a bonus during the year.
- (iii) A policy for granting share options as recommended by the Committee is to provide an incentivisation for staff and executive directors based on future results which add value for all shareholders and to ensure that the proposals are fair to the staff and executive directors concerned, the Company and shareholders.

Directors' report

continued

Directors' emoluments

	Basic salary 2002 £	Fees 2002 £	Bonus 2002 £	Benefits 2002 £	Total * emoluments 2002 £	Total emoluments 2001 £
Executive						
Peter Dubens	127,500	—	—	3,000	130,500	88,126
Eric Semel	178,333	—	—	3,000	181,333	128,991
David Annat*	50,000	—	—	3,000	53,000	—
Andrew Galvin*	23,750	—	—	2,500	26,250	—
Alan Pereira**	67,500	—	30,000	—	97,500	37,500
Non-executive						
Sir David Sieff	—	65,000	—	—	65,000	20,833
Alex Berger	—	20,000	—	—	20,000	4,167
Anthony McAuslan**	—	10,000	—	—	10,000	4,167
Dr Hans Wagner	—	17,500	—	—	17,500	4,167
Total	447,083	112,500	30,000	11,500	601,083	287,951

* The above figures represent the payments made from the date of appointment.

** The above figures represent the payments made in the year to date of leaving.

Service contracts

Service contracts are in force for all directors. The contracts for executive directors are terminable by 12 months' notice and the contracts for non-executive directors are terminable by 6 months' notice.

Directors' pension rights

Andrew Galvin is a member of the ukbetting plc pension scheme. The scheme is a defined contribution group personal pension to which the Company contributes 10% of basic salary per annum.

No other director received a pension contribution from the Company during the year.

Directors' interests

The directors' beneficial interests in the issued ordinary share capital of the Company were:

	As at 31 December 2002	
	Ordinary shares	Warrants/Options*
Sir David Sieff	80,000	400,000 Options
Peter Dubens	1,378,571	4,640,000 Warrants 270,270 Options
		plus 1,160,000 Further Subscription Rights
Eric Semel	2,090,100	5,200,000 Warrants 270,270 Options
		plus 1,300,000 Further Subscription Rights
David Annat	Nil	597,450 Options
Andrew Galvin	20,000	394,747 Options
Alex Berger	80,000	120,000 Options
Dr Hans Wagner**	1,340,000	Nil

* Warrants and Options entitle the holder to subscribe for ordinary shares in the Company as defined on page 45

** Held in the name of S Sonder & Cie SA

Directors' report

continued

Directors' interests continued

The Further Subscription Rights give the holders the right to subscribe for Ordinary Shares at a subscription price of 25p per Ordinary Share and to be issued with four Warrants for each Ordinary Share subscribed for.

The following changes occurred during the financial year:

Hans Wagner acquired 340,000 ordinary shares at 29 pence on 19 December 2002.

Eric Semel acquired 30,000 ordinary shares at 32 pence on 3 December 2002.

Andrew Galvin acquired 20,000 ordinary shares at 29 pence on 20 December 2002.

Peter Dubens acquired 50,000 ordinary shares at 40 pence on 19 September 2002; 100,000 ordinary shares at 29 pence on 23 October 2002 and 68,571 ordinary shares on 28 November 2002 at 32.5 pence.

The following changes have occurred in the period from the end of the financial year to 2 April 2003:

The non-executive directors were allotted shares in lieu of fees at 22 January 2003 as follows:

Sir David Sieff	35,085
Alex Berger	26,580
Hans Wagner	26,580

Assuming the Concert Party exercises its Warrants and Further Subscription Rights in full, each member of the Concert Party will have the following interests in the Company:

Shareholder	Assuming individual dilution	Percentage*	Assuming fully diluted shareholdings	Percentage**
Eric Semel	14,060,370	23.72	14,060,370	20.09
Peter Dubens	12,088,841	20.84	12,088,841	17.28
Concert Party	26,149,211		26,149,211	37.37

* This assumes that only the individual member of the Concert Party exercises in full their individual Warrants and Further Subscription Rights.

** This assumes each member of the Concert Party exercises in full his Warrants and Further Subscription Rights.

Directors' report

continued

Share options and Warrants

On 2 October 2002, options over 394,747 ordinary shares of 1p each were granted to both David Annat and Andrew Galvin respectively. The options were granted at 38p and are exercisable from 2 October 2005, expiring on 1 October 2012.

	No. of 1p Ordinary Shares to which Options/Warrants relate		Option Price	Date exercisable from	Date exercisable to
Sir David Sieff	400,000	Options	25p	07/08/01	07/08/06
Peter Dubens	4,640,000	Warrants	25p	07/08/01	07/08/06
	1,160,000	FSR*	25p	07/08/01	07/08/06
	270,270	Options	37p	30/11/04	30/11/11
Eric Semel	5,200,000	Warrants	25p	07/08/01	07/08/06
	1,300,000	FSR*	25p	07/08/01	07/08/06
	270,270	Options	37p	30/11/04	30/11/11
David Annat	202,703	Options	37p	30/11/04	30/11/11
	394,747	Options	38p	02/10/05	02/10/12
Andrew Galvin	394,747	Options	38p	02/10/05	02/10/12
Alex Berger	120,000	Options	25p	07/08/01	07/08/06

* Further Subscription Rights

During the year, the Company's share price on AIM ranged between 28p and 59p. At 31 December 2002 the share price was 28.5p.

Financial risk management

The Board regularly reviews the financial requirements of the Group and the risks associated therewith.

Group operations are primarily financed by cash held at banks and loan funding. In addition to the primary financial instruments the Group also has other financial instruments such as investments, debtors, trade creditors and accruals that arise directly from the Group's operations.

The Group has £5 million of borrowings from UBS Warburg AG.

At 31 December 2002 the Group had cash balances of £2.974 million (2001: £3.761 million) and finance lease liabilities of £7,000 (2001: £13,000).

The Group's cash balances surplus to day-to-day requirements are held in high interest deposit accounts to maximise the interest return but maintaining flexibility to withdraw funds as required.

Assets and liabilities held in foreign currencies are detailed in note 17 of the financial statements. The Group has not entered into any hedging transactions.

The main risks arising from the Group's financial instruments are interest rate risk and credit risk. The Board reviews and agrees policies for managing these risks.

Interest rate risk

The Group's exposure to interest rate risk on its cash deposits is managed by reviewing available rates.

Credit risk

Counterparty risk arises from the deposit of surplus funds. The risk is managed by restricted transactions to banks with an appropriate credit rating.

Directors' report

continued

Foreign exchange risk

The Group's exposure to foreign exchange risk is managed by the balancing of assets and liabilities within currencies and hedging if deemed appropriate.

Auditors

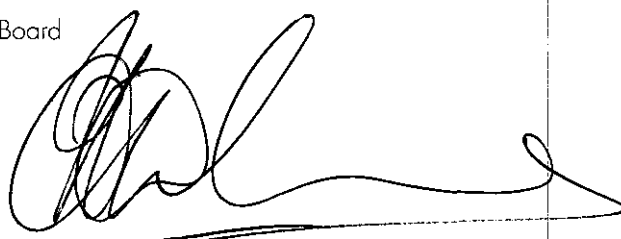
Ernst & Young LLP resigned and KPMG Audit Plc was appointed by the Board as auditor with effect from 31 July 2002. In accordance with Section 385 of the Companies Act 1985, a resolution for their appointment as auditor to the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Peter Dubens

Vice Chairman

2 April 2003

A large, stylized handwritten signature in black ink, likely belonging to Peter Dubens, the Vice Chairman.

Statement of directors' responsibilities

In respect of the accounts

Company law requires the directors to prepare accounts for each financial year, which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that year. In preparing those accounts, 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

Independent auditor's report

to the members of ukbottling plc

Respective responsibilities of directors and auditor

We have audited the financial statements on pages 22 to 49, except for the proforma turnover information on page 22.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

The directors are responsible for preparing the directors' report and, as described on page 20, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditor, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 regarding directors' remuneration and transactions with the Group is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants

Registered Auditor

2 April 2003

Consolidated profit and loss account

for the year ended 31 December 2002

		Discontinued operations	Continuing operations			2002 Total	Discontinued operations	Continuing operations	2001 Total
	Notes	£000	Acquisitions (note 23)	Non- recurring (note 5)	Continuing operations (excluding non-recurring items and acquisitions)	£000	£000	£000	£000
Proforma turnover – Group and joint venture (unaudited)	2					46,835			9,141
Turnover: Group and share of joint venture		346	4,140	—	38,473	42,959	67	7,082	7,149
Less: Share of joint venture turnover		—	—	—	(3,876)	(3,876)	—	(1,992)	(1,992)
Group turnover	2	346	4,140	—	34,597	39,083	67	5,090	5,157
Cost of sales		(284)	(1,550)	—	(32,819)	(34,653)	(25)	(5,044)	(5,069)
Gross profit		62	2,590	—	1,778	4,430	42	46	88
Administrative expenses (including operating exceptionals)		(705)	(2,976)	(1,401)	(5,964)	(11,046)	(764)	(2,016)	(2,780)
EBITDA before exceptional items		(458)	(193)	(1,046)	(3,190)	(4,887)	(196)	(1,395)	(1,591)
Exceptional items	5	—	—	(355)	—	(355)	(494)	(276)	(770)
EBITDA after exceptional items		(458)	(193)	(1,401)	(3,190)	(5,242)	(690)	(1,671)	(2,361)
Depreciation and amortisation		(185)	(193)	—	(996)	(1,374)	(32)	(299)	(331)
Group operating loss	3	(643)	(386)	(1,401)	(4,186)	(6,616)	(722)	(1,970)	(2,692)
Share of joint venture operating profit		—	—	—	114	114	—	56	56
Loss on termination of operations	5	(1,470)	—	—	—	(1,470)	—	—	—
Loss on ordinary activities before interest and taxation		(2,113)	(386)	(1,401)	(4,072)	(7,972)	(722)	(1,914)	(2,636)
Interest receivable	25	37	—	—	10	72	18	48	66
Interest payable and similar charges	6	—	(55)	(369)	(510)	(934)	(1)	(26)	(27)
Loss on ordinary activities before taxation		(2,088)	(404)	(1,770)	(4,572)	(8,834)	(705)	(1,892)	(2,597)
Tax on loss on ordinary activities	7	—	—	—	—	—	—	—	—
Loss for the financial year attributable to members of the parent undertaking		(2,088)	(404)	(1,770)	(4,572)	(8,834)	(705)	(1,892)	(2,597)
Loss per share – pence									
Basic and diluted						(19.29)			(18.25)
Adjusted loss per share – pence									
Basic and diluted						(10.65)			(10.67)

Adjusted loss per share has been calculated to provide a better understanding of the underlying performance of the Group. Adjusted loss is before exceptional and non-recurring costs (see note 8).

There is no material difference between historical cost profits and those recorded in the profit and loss account.

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2002

	2002 £000	2001 £000
Retained loss of the financial period	(8,834)	(2,597)
Exchange adjustments	7	—
Total recognised losses since last annual report	<u>(8,827)</u>	<u>(2,597)</u>

Reconciliation of shareholders' funds

for the year ended 31 December 2002

	2002 £000	2001 £000
<i>Group</i>		
Shareholders' funds at 1 January	9,707	—
Total recognised losses	(8,827)	(2,597)
New shares issued	1,631	11,265
Shares to be issued	500	1,039
Shareholders' funds at 31 December	<u>3,011</u>	<u>9,707</u>
<i>Company</i>		
Shareholders' funds at 1 January	11,727	—
Total recognised losses	(4,672)	(577)
New shares issued	1,631	11,265
Shares to be issued	500	1,039
Shareholders' funds at 31 December	<u>9,186</u>	<u>11,727</u>

Consolidated balance sheet

At 31 December 2002

	Notes	2002 £000	2001 £000
Fixed assets			
Intangible assets	9	8,119	7,903
Tangible assets	10	1,412	295
Investments	11	—	2
		<u>9,531</u>	<u>8,200</u>
Current assets			
Stock	12	68	—
Debtors	13	2,380	1,474
Cash at bank and in hand	17	2,974	3,761
		<u>5,422</u>	<u>5,235</u>
Creditors: amounts falling due within one year	14	(10,600)	(2,611)
Net current (liabilities)/assets		<u>(5,178)</u>	<u>2,624</u>
Total assets less current liabilities		<u>4,353</u>	<u>10,824</u>
Creditors: amounts falling due after more than one year	15	(1,139)	(772)
Provisions for liabilities and charges			
Other provisions	19	(203)	(24)
Provision for joint venture deficit	2,11		
Share of gross assets		—	267
Share of gross liabilities		—	(588)
		<u>—</u>	<u>(321)</u>
		<u>3,011</u>	<u>9,707</u>
Capital and reserves			
Called up share capital	20	473	443
Share premium account	21	5,526	5,501
Shares to be issued	21	1,500	1,039
Other reserve	21	6,936	5,321
Profit and loss account	21	(11,424)	(2,597)
Equity shareholders' funds		<u>3,011</u>	<u>9,707</u>

Eric Semel

Chief Executive Officer

2 April 2003



Company balance sheet

at 31 December 2002

	Notes	2002 £000	2001 £000
Fixed assets			
Tangible fixed assets	10	20	—
Investments	11	23,723	9,493
		<u>23,743</u>	<u>9,493</u>
Current assets			
Debtors	13	3,398	2,091
Cash at bank and in hand		1,724	1,134
		<u>5,122</u>	<u>3,225</u>
Creditors: amounts falling due within one year	14	(18,540)	(226)
Net current (liabilities)/assets		<u>(13,418)</u>	<u>2,999</u>
Total assets less current liabilities		<u>10,325</u>	<u>12,492</u>
Creditors: amounts falling due after more than one year	15	(1,139)	(765)
		<u>9,186</u>	<u>11,727</u>
Capital and reserves			
Called up share capital	20	473	443
Share premium	21	5,526	5,501
Shares to be issued	21	1,500	1,039
Other reserve	21	6,936	5,321
Profit and loss account	21	(5,249)	(577)
Equity shareholders' funds		<u>9,186</u>	<u>11,727</u>

Eric Semel

Chief Executive Officer

2 April 2003



Consolidated statement of cash flows

for the year ended 31 December 2002

	Notes	2002 £000	2001 £000
Cash outflow from operating activities	1	(6,352)	(2,190)
Returns on investments and servicing of finance	2	(630)	64
Taxation		—	—
Capital expenditure and financial investment	2	(200)	(162)
Acquisitions and disposals	2	1,434	1,306
Net cash outflow before financing		(5,748)	(982)
Financing	2	4,994	4,743
(Decrease)/increase in cash in the year		<u>(754)</u>	<u>3,761</u>

Reconciliation of net cash flow to movement in net debt

for the year ended 31 December 2002

	Notes	2002 £000	2001 £000
(Decrease)/increase in cash for the year		(754)	3,761
(Increase)/decrease in debt	3	<u>(4,994)</u>	<u>1,000</u>
Change in net (debt)/funds resulting from cash flows		(5,748)	4,761
Non-cash movements		<u>(33)</u>	<u>—</u>
Change in net (debt)/funds resulting from cash flows and non-cash movements		(5,781)	4,761
Loans and finance lease liabilities arising on acquisitions	3	<u>—</u>	<u>(1,013)</u>
Movement in net (debt)/funds for the year		(5,781)	3,748
Net funds at start of the year		<u>3,748</u>	<u>—</u>
Net (debt)/funds at end of the year		<u>(2,033)</u>	<u>3,748</u>

Notes 1 to 3 relating to the consolidated statement of cash flows are set out on pages 27 and 28.

Notes to the consolidated statement of cash flows

for the year ended 31 December 2002

1 Reconciliation of operating loss to operating cash flows

	2002 £000	2001 £000
Operating loss	(6,616)	(2,692)
Depreciation and amortisation	1,374	331
(Increase)/decrease in debtors	1,631	(318)
(Increase)/decrease in stock	10	—
Increase/(decrease) in creditors	(2,683)	465
Increase/(decrease) in provisions	(68)	24
Net cash outflow from operating activities	(6,352)	(2,190)

2 Analysis of cash flows for headings netted in the cash flow statement

	2002 £000	2001 £000
Returns on investment and servicing of finance		
Interest received	72	66
Interest paid	(332)	(1)
Finance lease charges	(1)	(1)
Charges on raising of facilities	(369)	—
Net cash (outflow)/inflow from returns on investments and servicing of finance	(630)	64
Capital expenditure and financial investment		
Acquisition of tangible fixed assets	(706)	(162)
Disposal of tangible fixed assets	506	—
Net cash outflow from capital expenditure and financial investment	(200)	(162)
Acquisitions and disposals		
Purchase of subsidiary undertakings net of cash acquired of £14,480,000 (2001: £3,497,000)	1,531	1,306
Closure of businesses	(223)	—
Payment on termination of joint venture arrangement	126	—
Net cash inflow from acquisitions and disposals	1,434	1,306
Financing		
Proceeds from shares issued by parent undertaking	—	6,000
Cost of share issues	—	(257)
Repayment of loan due by subsidiary	—	(1,000)
Bank finance/term loan	5,000	—
Repayment of finance leases	(6)	—
Net cash inflow from financing	4,994	4,743

Notes to the consolidated statement of cash flows

continued

for the year ended 31 December 2002

2 Analysis of cash flows for headings netted in the cash flow statement

continued

Details of acquisitions and the cashflows arising from the acquired companies are shown in note 23, which includes details of material non-cash transactions.

The cashflow in respect of non-recurring and exceptional items during the year was £1,317,000 (2001: £587,351). This is all included in cashflow from operating activities.

3 Analysis of net debt

	At 31 December 2001 £000	Cash flow £000	Other non-cash changes £000	At 31 December 2002 £000
Cash at bank and in hand	3,761	(754)	(33)	2,974
Finance leases	(13)	6	—	(7)
Loans due within one year	—	(5,000)	—	(5,000)
Net funds/(debt)	<u>3,748</u>	<u>(5,748)</u>	<u>(33)</u>	<u>(2,033)</u>

Notes to the consolidated accounts

for the year ended 31 December 2002

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements. The Group has adopted FRS 18 "Accounting policies" and FRS 19 "Deferred tax", in these financial statements.

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable UK accounting standards.

Renewal of term loan facility

As shown in note 14, the Group has a bank loan term facility which is due for renewal in September 2003. The funding provider has indicated its intention to extend the repayment date from September 2003 to 30 April 2004 subject to the satisfaction of a number of conditions including the directors' confirmation that the Group will continue to be in a position to pay its debts as they fall due for the foreseeable future and a minimum of one year from the date of these financial statements.

The directors have carefully considered cash flow and working capital forecasts for the Group for the foreseeable future and have modelled a number of business scenarios. The directors are confident that they will be able to satisfy all of the conditions. They are therefore confident that the loan facility will be renewed and that it is therefore appropriate for the accounts to be prepared on a going concern basis. No adjustments have been made to the assets and liabilities in the financial statements which would result from the accounts being prepared on a basis other than the going concern basis.

Basis of consolidation

The Group accounts consolidate the accounts of ukbetting and its subsidiary undertakings made up to 31 December 2002. The subsidiary undertakings are accounted for using acquisition accounting and their results are included in the profit and loss account from the date control passed. No profit and loss account is presented for the Company as permitted by section 230 of the Companies Act 1985.

Entities in which the Group holds an interest and are jointly controlled by the Group and one or more other parties are treated as joint ventures. In the Group accounts, joint ventures are accounted for using the gross equity method.

Goodwill

Goodwill arising on acquisitions of subsidiary undertakings is capitalised and amortised over its estimated useful life on a straight line basis. The useful life of goodwill is determined based on the individual circumstances of each business acquired. Goodwill is reviewed for impairment at the end of the first full financial year following the acquisition and in other years if changes in circumstances or events indicate that the carrying value may not be recoverable.

On the subsequent disposal or termination of a business, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

Investments

Investments are held at cost less any provision for impairment in value. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Notes to the consolidated accounts continued

for the year ended 31 December 2012

1 Accounting policies continued

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold property	-	40 years
Fixtures and fittings and office equipment	-	over 3 – 4 years

The carrying value of tangible fixed assets is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Turnover

Turnover, which excludes value added tax and sales between Group businesses, represents the value of services supplied to customers.

Revenue recognition

Content

Connectivity revenue is recognised when the Group has determined that users have accessed the Group's services via a telecommunications network or service provider. Connectivity revenue is recorded as the gross amount received by the network or service provider and any deductions retained by the provider for additional services are recorded in cost of sales. Content syndication contracts are recognised rateably over the period of the contract. Professional services, such as web design and software implementation, and advertising revenues are recognised when the services are charged.

Gaming

Revenue is recognised when customers have placed a bet. Costs of sales include customer winnings, hedging, betting duty, levies and an estimate of ante-post liabilities.

Foreign currencies

Company

Transactions in foreign currencies are recorded at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign exchange currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate.

Group

The accounts of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange difference, arising on the translation of the opening net assets and profit and losses incurred are taken directly to reserves.

Research and development

Research and development costs include expenses incurred by the Group to develop, enhance, manage, monitor and operate the Group's web sites and systems. Research and development costs are expensed as incurred.

Leasing and hire purchase agreements

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

Notes to the consolidated accounts continued

for the year ended 31 December 2002

1 Accounting policies continued

The interest element of the rental obligations is charged to the profit and loss account over the year of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Onerous contracts

Provision is made for future rental expenses and related costs of leasehold property (net of estimated sublease income) where space is vacant and not planned to be used for ongoing operations.

Pensions costs

The Group operated a defined contribution group personal pension scheme in which the employees participate. The pension cost under this scheme is the amount of the contributions payable in respect of the year. The Group provides no other post-retirement benefits to its employees.

2 Turnover and segmental analysis

The proforma turnover is calculated as follows:

	2002 £000	2001 £000
Group turnover	39,083	5,157
Share of joint venture turnover	3,876	1,992
Turnover: Group and share of joint venture	42,959	7,149
Joint venture partners' share of joint venture turnover	3,876	1,992
Proforma turnover	46,835	9,141

Proforma turnover has been shown due to the full acquisition of the joint venture, to show the amount of turnover that would have been recorded if the joint venture had been shown under the principles of acquisition accounting from commencement.

Group turnover represents the amount derived from the provision of goods and services which fall within the Group's ordinary activities, stated net of value added tax.

The Group operates in two principal areas of activity, that of gaming and the provision of sports content.

Geographical turnover has been disclosed by origin, which arises wholly within the UK. All operating losses and net assets related to the UK. 96% of gaming turnover derived from clients resident in the UK, the balance derived from Europe and Asia. 68% of content turnover derived from clients resident in the UK, the balance derived from clients resident in Europe and the USA.

Group turnover, loss on ordinary activities before tax and net assets are analysed as follows. The share of operating profit of the joint venture and net liabilities of the joint venture relate to the gaming activity.

Notes to the consolidated accounts continued

for the year ended 31 December 2002

2 Turnover and segmental analysis continued

Area of activity	2002				2001			
	Gaming	Content	Credit Card Marketing	Total	Gaming	Content	Credit Card Marketing	Total
Group turnover								
Discontinued	—	63	283	346	—	—	67	67
Continuing – Acquisitions	1,624	2,516	—	4,140	—	—	—	—
Continuing (excluding non-recurring)	33,558	1,039	—	34,597	5,015	75	—	5,090
	<u>35,182</u>	<u>3,618</u>	<u>283</u>	<u>39,083</u>	<u>5,015</u>	<u>75</u>	<u>67</u>	<u>5,157</u>
Group operating loss before exceptional items and common costs								
Discontinued	—	(177)	(466)	(643)	—	—	(182)	(182)
Continuing – Acquisitions	(31)	(355)	—	(386)	—	—	—	—
Continuing (excluding non-recurring)	(1,640)	(1,189)	—	(2,829)	(561)	(608)	—	(1,169)
	<u>(1,671)</u>	<u>(1,721)</u>	<u>(466)</u>	<u>(3,858)</u>	<u>(561)</u>	<u>(608)</u>	<u>(182)</u>	<u>(1,351)</u>
Operating exceptional items								
Discontinued	—	—	—	—	—	—	(494)	(494)
Continuing – Acquisitions	—	—	—	—	—	—	—	—
Continuing (excluding non-recurring)	—	—	—	—	(249)	—	—	(249)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(249)</u>	<u>—</u>	<u>—</u>	<u>(249)</u>
Group operating loss after exceptional items and before common costs (excluding non-recurring)	<u>(1,671)</u>	<u>(1,721)</u>	<u>(466)</u>	<u>(3,858)</u>	<u>(810)</u>	<u>(608)</u>	<u>(676)</u>	<u>(2,094)</u>
Common costs including operating exceptional charges and non-recurring costs				(2,758)				(598)
				<u>(6,616)</u>				<u>(2,692)</u>
Group operating loss								
Share of profit of joint venture				114				56
Net interest and income from investments				(862)				39
Loss on termination of operations				(1,470)				—
				<u>(8,834)</u>				<u>(2,597)</u>
Loss on ordinary activities before taxation								
Net assets								
Discontinued	—	—	1,992	1,992	—	—	3,593	3,593
Continuing – Acquisitions	(132)	3,060	—	2,928	—	—	—	—
Continuing (excluding non-recurring)	2,040	(253)	—	1,787	3,947	1,482	—	5,429
	<u>1,908</u>	<u>2,807</u>	<u>1,992</u>	<u>6,707</u>	<u>3,947</u>	<u>1,482</u>	<u>3,593</u>	<u>9,022</u>
Unallocated net (liabilities)/assets				(3,696)				1,006
Share of joint venture net liabilities				—				(321)
Total net assets				<u>3,011</u>				<u>9,707</u>
Unallocated net (liabilities)/assets comprise:								
Cash				1,724				1,134
Other debtors				182				52
Other creditors/loans				(5,602)				(180)
				<u>(3,696)</u>				<u>1,006</u>

Notes to the consolidated accounts continued

For the year ended 31 December 2002

2 Turnover and segmental analysis continued

Analysis of Group's share of joint venture (all gaming)

	<i>Total</i> 2002 £000	<i>Total</i> 2001 £000
Turnover	3,876	1,991
Profit before tax	114	56
Taxation	—	—
Profit after tax	<u>114</u>	<u>56</u>
Current assets	—	267
Liabilities due within one year	—	(588)
Net liabilities	<u>—</u>	<u>(321)</u>

3 Group operating loss

This is stated after charging:

	2002 £000	2001 £000
Auditors' remuneration – audit services (Company £10,000)	85	65
– non-audit services	59	42
Amortisation of intangible fixed assets	993	310
Depreciation of owned fixed assets	381	20
Depreciation of assets held under finance leases and hire purchase contracts	—	1
Operating lease rentals – land and buildings	201	54
– plant and equipment	<u>39</u>	<u>—</u>

4 Staff costs

Employee costs and numbers

	2002 £000	2001 £000
Wages and salaries	2,850	667
Social security costs	283	94
Pension costs	95	—
	<u>3,228</u>	<u>761</u>

The average monthly number of employees during the year was as follows:

	No.	No.
Operational	110	44
Administration	14	17
	<u>124</u>	<u>61</u>

Details of directors' remuneration can be found on page 16.

Notes to the consolidated accounts continued

for the year ended 31 December 2002

5 Non-recurring costs and loss on termination of operations

Non-recurring costs

Non-recurring costs of £1,401,000 disclosed in the profit and loss account comprise those operating costs incurred during the post TEAMtalk acquisition period until the completion of integration and reorganisation procedures, after which they will not recur. Costs arising directly from the integration and reorganisation, comprising principally redundancy and termination payments, are included as exceptional non-recurring costs.

Arrangement fees of £369,000 relating to the funding of the acquisition of TEAMtalk have been charged to interest in the profit and loss account in the year in line with the term of the acquisition funding.

Loss on termination of operations

In the year the Group closed the Sportscard business and the TEAMtalk 252 radio station. The losses incurred in the close of these business units were £1,127,000 and £343,000 respectively. The two amounts have been classified as loss on termination of operations in the profit and loss account. The loss on termination of the Sportscard business is made up of the sale of Sportscard's database for £270,000, the write off of goodwill which arose on the acquisition of £1,195,000, closure costs of £150,000 and losses on disposal of fixed assets of £52,000.

6 Interest payable and similar charges

	2002 £000	2001 £000
Interest on bank loans and overdrafts	380	1
Interest on finance leases	1	1
Interest on unwinding of discount on deferred consideration	151	25
Arrangement fees relating to acquisition funding (note 5)	369	—
Exchange losses	33	—
	<u>934</u>	<u>27</u>

7 Tax on loss on ordinary activities

	2002 £000	2001 £000
Corporation tax	—	—
Deferred tax	—	—
	<u>—</u>	<u>—</u>

The Group has no tax charge due to the losses in the year and has tax losses to carry forward of approximately £20 million including losses acquired with TEAMtalk (2001: £10 million).

Notes to the consolidated accounts

For the year ended 31 December 2002

7 Tax on loss on ordinary activities continued

Current tax reconciliation

	2002 £000	2001 £000
Loss on ordinary activities before tax	(8,834)	(2,597)
Expected current tax thereon at 30%	(2,650)	(779)
Expenses which are not deductible for tax purposes	1,059	(228)
Depreciation in excess of capital allowances	101	156
Increase in tax losses carried forward	1,490	851
Current tax charge per accounts	—	—

8 Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the financial period.

Reconciliation of the loss and weighted average number of shares used in the calculations are set out below:

	2002 Losses £000	2002 Weighted average number of shares	2002 Per share (pence)	2001 Losses £000	2001 Weighted average number of shares	2001 Per share (pence)
Basic losses per share						
Loss attributable to shareholders	(8,834)	45,790,645	(19.29)	(2,597)	14,230,256	(18.25)

Diluted loss per share is the same as the basic loss per share as the exercise of share options and Warrants would reduce the loss per share, and are therefore not dilutive under FRS 14.

Adjusted loss per share has been calculated to provide a better understanding of the underlying performance of the Group as follows:

	2002 Losses £000	2002 Per share amount (pence)	2001 Losses £000	2001 Per share amount (pence)
Basic losses per share				
Loss attributable to shareholders	(8,834)	(19.29)	(2,597)	(18.25)
Amortisation of goodwill	993	2.17	309	2.17
Goodwill charged to profit and loss account on termination of Sportscard business	1,195	2.61	—	—
Non-recurring costs	1,770	3.86	770	5.41
	(4,876)	(10.65)	(1,518)	(10.67)

Notes to the consolidated accounts continued

for the year ended 31 December 2002

9 Intangible fixed assets

<i>Group</i>	<i>Goodwill £000</i>
Cost:	
At 1 January 2002	8,213
Additions	2,559
Disposals	(155)
At 31 December 2002	<u>10,617</u>
Amortisation:	
At 1 January 2002	310
Charge for the year	993
Goodwill charged on termination of Sportscard business (note 5)	1,195
At 31 December 2002	<u>2,498</u>
Net book value:	
At 31 December 2002	<u>8,119</u>
At 31 December 2001	<u>7,903</u>

Capitalised goodwill relates to the acquisitions of ukbetting.com Limited, Sporting Life UK Limited, SCG Enterprises Limited and TEAMtalk. The goodwill is being amortised over 10 years.

The additions in the year include the revision of the goodwill arising on the acquisition of ukbetting.com Limited due to the increase in the deferred contingent consideration. This has increased goodwill by £723,000.

Disposals relate to the sale of a business and certain assets within Rapid Raceline Limited (a business acquired with TEAMtalk).

The balance of additions to goodwill relate to the acquisitions of TEAMtalk and SCG Enterprises Limited (note 23).

Notes to the consolidated accounts continued

for the year ended 31 December 2002

10 Tangible fixed assets

	Freehold property £000	Group Fixtures fittings and office equipment £000	Total £000	Company Fixtures fittings and office equipment £000
Cost:				
At 1 January 2001	—	372	372	—
Additions	—	775	775	27
Acquisitions	800	520	1,320	—
Disposals	(488)	(211)	(699)	—
At 31 December 2002	312	1,456	1,768	27
Depreciation:				
At 1 January 2002	—	77	77	—
Charged in the year	6	375	381	7
Disposals	(4)	(98)	(102)	—
At 31 December 2002	2	354	356	7
Net book value:				
At 31 December 2002	310	1,102	1,412	20
At 31 December 2001	—	295	295	—

Included under fixtures, fittings and office equipment are assets held under a finance lease.
The net book value is £Nil (2001: £12,263).

11 Fixed asset investments

Group	Joint venture £000	Investments in shares £000
Cost less provision for diminution in value:		
At 1 January 2002	(321)	2
Payment by joint venture partner to cover expenses incurred by the Group on behalf of the joint venture	81	(2)
Share of profit retained by joint venture partner	114	—
Payment by joint venture on acquisition	126	—
At 31 December 2002	—	—
Company		Investments in subsidiary undertakings £000
Cost or valuation:		
At 1 January 2002		9,493
Additions		16,487
Impairment		(2,257)
At 31 December 2002		23,723

The impairment relates to Sportscard Group plc following the termination of the business.

Notes to the consolidated accounts continued

for the year ended 31 December 2002

11 Fixed assets investments continued

The principal subsidiary undertakings at 31 December 2002 were:

	Nature of business	Country of incorporation	Percentage proportion of shares held
<i>Held directly</i>			
ukbetting.com Limited	Gaming	England	100
SCG Enterprises Limited	Non trading	England	100
Sporting Life UK Limited	Media	England	100
Sportscard Group plc	Credit card marketing	England	100
TEAMtalk Media Group Limited	Holding Company	England	100
<i>Held indirectly</i>			
Sportscard Credit Card Company Limited	Credit card marketing	England	100
Sportscard Limited	Sport ticket marketing	England	100
Sportinglife Bets Limited	Gaming	England	100
TEAMtalk Inc	Non trading	USA	100
TEAMtalk Satellite Limited	Media	England	100
TEAMtalk Satellite Inc	Media	USA	100
TEAMtalk.com Limited	Media	England	100
TTC2 Limited	Holding Company	England	100
TTC3 Limited	Holding Company	England	100
TTC4 Limited	Holding Company	England	100
Rapid Raceline Limited	Intellectual Property	England	100
TEAMtalk Media Limited	Media	England	100
TEAMtalk Broadcast Limited	In-store Radio	England	100
Web-Bet Limited	Non trading	England	100

The Companies Act 1985 requires investments in subsidiary undertakings to be recorded at cost less provision for diminution in value. Following the transfer at book value of the trade, assets and liabilities of SCG Enterprises Limited to ukbetting.com Limited during the year, the book value of that subsidiary fell below the recorded investment in that subsidiary of £454,000.

The directors of ukbetting plc are of the opinion that the trade of SCG Enterprises Limited now held within ukbetting.com Limited, still justifies the £454,000 investment and hence to record an impairment charge in the profit and loss account would not show a true and fair view.

The directors of ukbetting plc have invoked the true and fair override provision in the Companies Act 1985 to re-allocate the £454,000 investment in SCG Enterprises Limited to ukbetting.com Limited.

Notes to the consolidated accounts continued

for the year ended 31 December 2002

12 Stock		2002	2001
		£000	£000
	Receiving equipment	68	—
13 Debtors		2002	2001
		£000	£000
	<i>Group</i>		
	Trade debtors	995	262
	Other debtors	626	319
	Prepayments	759	660
	Amount owed by joint venture	—	233
		<u>2,380</u>	<u>1,474</u>
	<i>Company</i>	2002	2001
		£000	£000
	Amounts due from subsidiary undertakings	3,216	2,040
	Other debtors	46	46
	Prepayments	136	5
		<u>3,398</u>	<u>2,091</u>
	Included under Group prepayments are sports debentures of £104,174 (2001: £293,118). These are charged to the profit and loss account over the term of the debenture. The amount due after more than one year is £39,900 (2001: £205,842).		
14 Creditors: amounts falling due within one year		2002	2001
		£000	£000
	<i>Group</i>		
	Obligations under finance leases and hire purchase contracts (note 16)	7	6
	Trade creditors	3,177	1,030
	Other taxes and social security costs	264	394
	Accruals	2,146	845
	Other creditors	6	336
	Bank loan-term facility	5,000	—
		<u>10,600</u>	<u>2,611</u>
	<i>Company</i>	2002	2001
		£000	£000
	Trade creditors	148	—
	Amounts due to subsidiary undertakings	12,938	46
	Other creditors	15	7
	Accruals	439	173
	Bank loan-term facility	5,000	—
		<u>18,540</u>	<u>226</u>

The term facility is repayable on 30 September 2003 and is secured against the shares of TEAMtalk which are held by ukbetting plc. Further details about the status of the term loan are set out in note 1.

Notes to the consolidated accounts continued

for the year ended 31 December 2002

15 Creditors: amounts falling due after more than one year

	2002 £000	2001 £000
<i>Group</i>		
Obligations under finance leases and hire purchase contracts (note 16)	—	7
Deferred consideration	1,139	765
	<u>1,139</u>	<u>772</u>
<i>Company</i>		
Deferred consideration	1,139	765
	<u>1,139</u>	<u>765</u>

Deferred consideration comprises the cash element of the amount payable to ENIC in respect of the acquisition of ukbetting.com Limited. This has been increased in the year due to reassessment of future growth prospects.

The amount now due is analysed as follows:

	£000
Amount due 1 January 2002	765
Interest (note 6)	151
Increase in amount due	223
At 31 December 2002	<u>1,139</u>

16 Obligations under finance leases

	2002 £000	2001 £000
<i>Group</i>		
Net obligations under finance leases are repayable as follows:		
Within one year	7	6
Within two to five years	—	7
	<u>7</u>	<u>13</u>
Total obligations at 1 January	13	—
Additions under lease agreements during the year	—	13
Capital repayments during the year	(6)	—
Total obligations at 31 December	<u>7</u>	<u>13</u>

Notes to the consolidated accounts continued

for the year ended 31 December 2002

17 Financial instruments and derivatives

The directors' report on pages 18 and 19 provides an explanation of the Group's treasury objectives and policies with regards to financial instruments and the management of risk. An outline of the policies adopted for achieving these objectives is also provided.

Short-term debtors and creditors have been omitted from this note as permitted under FRS 13.

(a) Interest rate risk profile as at 31 December 2002

The interest rate risk profile of the Group is as follows:

<i>Financial assets</i>	<i>Floating rate £000</i>	<i>Financial assets on which no interest is receivable £000</i>	<i>2002 £000</i>	<i>2001 £000</i>
US Dollar	266	—	266	—
Euro	109	15	124	—
Sterling	2,584	—	2,584	3,673
	<u>2,959</u>	<u>15</u>	<u>2,974</u>	<u>3,673</u>

The financial assets of the Group comprise:

	<i>2002 £000</i>	<i>2001 £000</i>
Cash and deposits	2,974	3,671
Fixed asset investments	—	2
Total financial assets	<u>2,974</u>	<u>3,673</u>

The floating rate financial assets comprise cash earning interest linked to base rates.

<i>Financial liabilities</i>	<i>Floating rate £000</i>	<i>Fixed rate £000</i>	<i>Financial liabilities on which no interest is charged £000</i>	<i>Total £000</i>	<i>Fixed rate financial liabilities Weighted average interest rate percentage</i>	<i>Weighted average number of years</i>
2002						
Sterling	—	6,146	203	6,349	9.7	1.0
2001						
Sterling	—	778	24	802	8.1	3.4

The financial liabilities of the Group comprise:

	<i>2002 £000</i>	<i>2001 £000</i>
Finance lease	7	13
Deferred consideration	1,139	765
Other financial liabilities	203	24
Bank loan term facility	5,000	—
	<u>6,349</u>	<u>802</u>

Notes to the consolidated accounts continued

for the year ended 31 December 2002

17 Financial instruments and derivatives

continued

(b) Foreign currency exposure profile as at 31 December 2002

As explained in the Group's accounting policy, exchange differences arising from the retranslation of the opening net assets of subsidiary undertakings which have functional currencies other than sterling are taken to reserves, together with the differences arising between the profit and loss translated at average rates compared with year end rates.

The table below shows the extent to which Group companies have monetary assets and liabilities in currencies other than their functional currency. Foreign exchange differences on the retranslation of these assets and liabilities are taken to the profit and loss account of the subsidiary concerned and the Group. The position at 31 December 2002 was as follows:

Net foreign currency monetary assets/(liabilities)

	US dollar £000	Euro £000	2002 Total £000	2001 Total £000
Functional currency of Group operation				
Sterling	249	81	330	—
Total	<u>249</u>	<u>81</u>	<u>330</u>	<u>--</u>

(c) Liquidity profile of financial liabilities as at 31 December 2002

The following table analyses the Group's financial liabilities as at 31 December 2002, which are repayable as follows:

	2002 £000	2001 £000
In one year or less or on demand	5,007	30
In more than one year but not more than two years	89	7
In more than two years but not more than five years	1,253	765
In more than five years	—	—
Total	<u>6,349</u>	<u>802</u>

The Group had £5 million of committed borrowing facilities at 31 December 2002.

Notes to the consolidated accounts

for the year ended 31 December 2002

17 Financial instruments and derivatives

continued

(d) Fair values of financial assets and liabilities

	Book value 2002 £000	Fair value 2002 £000	Book value 2001 £000	Fair value 2001 £000
Primary financial instruments held or used to finance the Group's operations				
Cash deposits	2,974	2,974	3,671	3,671
Other financial assets	—	—	2	2
Borrowings maturing within one year	(5,007)	(5,007)	(6)	(6)
Borrowings maturing after one year	(1,139)	(1,139)	(772)	(772)
Other financial liabilities	(203)	(203)	(24)	(24)
	<u>(3,375)</u>	<u>(3,375)</u>	<u>2,871</u>	<u>2,871</u>

- (i) The Group does not hold any financial instruments for trading purposes.
- (ii) The fair value of cash at bank and in hand approximate to book value due to short-term maturity of these instruments.
- (iii) The fair values of the deferred consideration have been calculated by discounting expected future cash flows at prevailing interest rates.

18 Deferred taxation

Group

The movements in deferred taxation during the current and previous years are as follows:

	2002 £000	2001 £000
At 1 January	—	—
Charge for the year	—	—
At 31 December	<u>—</u>	<u>—</u>

The deferred tax asset is made up as follows:

	2002 £000	Recognised 2001 £000	Not recognised 2002 £000	2001 £000
Accelerated capital allowances	—	—	1,026	156
Short term timing differences	—	—	6,149	3,200
	<u>—</u>	<u>—</u>	<u>7,175</u>	<u>3,356</u>

Notes to the consolidated accounts

for the year ended 31 December 2002

19 Other provisions

	2002 £000	2001 £000
At 1 January	24	—
Acquired/charged in year	247	24
Utilised	(68)	—
At 31 December	<u>203</u>	<u>24</u>

The provisions relate to rent and other costs of vacant properties no longer used by the Group. The provisions are expected to be utilised in 2003 (£89,000) and 2004 (£114,000).

20 Share capital

Authorised, allotted, called up and fully paid

	2002 No.	2002 £000	2001 No.	2001 £000
Ordinary shares of £0.01 each	<u>47,295,312</u>	<u>473</u>	<u>44,311,400</u>	<u>443</u>

During the period the following fully paid shares were issued:

- (a) On 11 January 2002, 24,433 1p ordinary shares and on 5 February 2002, 112,435 1p ordinary shares were issued to complete the acquisition of Sportscard Group Plc, which had become unconditional on 12 November 2001.
- (b) On 1 May 2002, 54,945 1p ordinary shares were issued to staff in lieu of bonus.
- (c) From 11 July 2002 to 3 September 2002, 2,792,099 1p ordinary shares were allotted to complete the acquisition of TEAMtalk.

Post balance sheet events:

On 22 January 2003, 88,245 1p ordinary shares were issued to the non-executive directors in lieu of fees.

The total shares in issue at 2 April 2003 are 47,383,557.

Notes to the consolidated accounts continued

for the year ended 31 December 2007

20 Share capital continued

The following options and/or Warrants have been granted over the ordinary shares of the Company:

	Date of grant or exchange	No. of 1p ordinary shares to which awards relate	Exercise price pence	Date exercisable
Options to non-executive directors at flotation	7 Aug 01	600,000	25	Prior to 7 Aug 06
Warrants and options to executive directors at flotation	7 Aug 01	9,940,000	25	Prior to 7 Aug 06
Warrants to substantial shareholder at flotation	7 Aug 01	6,000,000	25	Conditional upon turnover by 31 Dec 05
Further Subscription Rights to executive directors – shares	7 Aug 01	2,460,000	25	Prior to 7 Aug 06
Further Subscription Rights to executive directors – Warrants	7 Aug 01	9,840,000	25	Prior to 7 Aug 06
Sportscard exchange options	12 Nov 01	257,140	42	Prior to 1 Mar 11
Options to executive directors and staff	30 Nov 01	988,805	37	From 30 Nov 04 and before 30 Nov 11
Options to executive directors and staff	2 Oct 02	1,118,421	38	From 2 Oct 05 and before 2 Oct 12

The Company operates an approved share option scheme and an unapproved share option scheme.

Under the terms of the Company's unapproved share option scheme the individual is liable to pay the National Insurance accruing to the Company on the gains accruing on the exercise of options. The National Insurance liability has been accrued for within creditors and has been offset by an amount recoverable from employees within debtors. Consequently there is no charge to the profit and loss account in respect of National Insurance accruing on the exercise of share options.

The Company has not issued any share options at less than the market price.

Notes to the consolidated accounts continued

for the year ended 31 December 2002

21 Reserves

	<i>Shares to be issued</i>	<i>Other reserve</i>	<i>Share premium</i>	<i>Profit and loss account</i>
<i>Group</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 2002	1,039	5,321	5,501	(2,597)
Share issues	(39)	1,615	25	—
Additional deferred contingent consideration	500	—	—	—
Loss for the year	—	—	—	(8,834)
Exchange adjustments	—	—	—	7
At 31 December 2002	<u>1,500</u>	<u>6,936</u>	<u>5,526</u>	<u>(11,424)</u>
At 1 January 2002	1,039	5,321	5,501	(577)
Share issues	(39)	1,615	25	—
Additional deferred contingent consideration	500	—	—	—
Loss for the year	—	—	—	(4,672)
At 31 December 2002	<u>1,500</u>	<u>6,936</u>	<u>5,526</u>	<u>(5,249)</u>

The loss attributable to members of ukbetting plc dealt with in the accounts of the Company is £4,672,000.

22 Other commitments

Annual commitments under non-cancellable operating leases as follows:

	<i>Plant and equipment</i>	<i>Land and buildings</i>	<i>Total</i>	<i>Plant and equipment</i>	<i>Land and buildings</i>	<i>Total</i>
<i>Group</i>	<i>2002</i>	<i>2002</i>	<i>2002</i>	<i>2001</i>	<i>2001</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases which expire:						
Within one year	4	24	28	—	70	70
Between two and five years	52	174	226	—	—	—
After five years	—	187	187	—	102	102
	<u>56</u>	<u>385</u>	<u>441</u>	<u>—</u>	<u>172</u>	<u>172</u>

Notes to the consolidated accounts continued

for the year ended 31 December 2002

23 Acquisitions

(a) Acquisition of SCG Enterprises Limited ("SCGE")

On 5 July 2002 the Group acquired the entire issued share capital of SCGE. The total consideration of £454,000 including expenses was satisfied by cash.

The Group has used acquisition accounting to account for the purchase and the resulting goodwill of £706,000 has been capitalised and is being amortised over 10 years.

	<i>Book and provisional fair value</i>
	<i>£000</i>
<i>Net assets acquired</i>	
Debtors	188
Cash	604
Creditors	(1,044)
Net liabilities	(252)
Goodwill	706
Consideration	454
	<u>£000</u>
Satisfied by:	
Cash	454
	<u>£000</u>

The summarised profit and loss accounts of SCGE for the periods immediately prior to the acquisition by the Group are:

	<i>1 January 2001 to 30 June 2002 £000</i>	<i>1 January 2000 to 31 December 2000 £000</i>
Turnover	11,529	—
Operating loss	(639)	—
Loss before taxation	(633)	—
Taxation	—	—
Loss after taxation	(633)	—
	<u>£000</u>	<u>£000</u>

In September 2002, the activities of SCGE were merged with those of ukbetting.com Limited. The goodwill arising on acquisition is now included with the goodwill that arose on the acquisition of that company.

Notes to the consolidated accounts continued

for the year ended 31 December 2002

23 Acquisitions continued

(b) Acquisition of TEAMtalk Media Group plc ("TEAMtalk")

On 12 July 2002 the Group acquired the entire issued share capital of TEAMtalk. The total consideration of £14.1 million including expenses, was satisfied with cash of £12.5 million and the issue of £1.6 million of shares. The Group has used acquisition accounting to account for the purchase and the resulting goodwill of £975,000 has been capitalised and is being amortised over 10 years.

	Book value £000	Provisional fair value adjustments £000	Fair value to the Group £000
Net assets acquired			
Tangible fixed assets	898	422	1,320
Intangible fixed assets	155	—	155
Stock	78	—	78
Debtors	2,582	—	2,582
Cash	13,876	—	13,876
Creditors	(4,875)	—	(4,875)
	<u>12,714</u>	<u>422</u>	<u>13,136</u>
Goodwill			<u>975</u>
Consideration			<u>14,111</u>
			£000
Satisfied by:			
Cash			12,506
Shares			<u>1,605</u>
			<u>14,111</u>

The fair value adjustment is the revaluation of property to reflect its market value.

The summarised profit and loss accounts of TEAMtalk for the periods immediately prior to the acquisition by the Group are:

	15 month period ended 30 June 2002 £000	13 month period ended 31 March 2001 £000
Turnover	12,213	9,718
Operating loss	(33,242)	(17,728)
Loss before taxation	(31,783)	(15,343)
Taxation	—	(9)
Loss after taxation	(31,783)	(15,352)
Minority interest	381	—
Retained loss	<u>(31,402)</u>	<u>(15,352)</u>

Notes to the consolidated accounts continued

for the year ended 31 December 2002

23 Acquisitions continued

Total recognised gains and losses for the period from 1 July 2002 to 12 July 2002 were £521,000. Since acquisition TEAMtalk has contributed £980,000 to operating losses before exceptional items and goodwill amortisation. After exceptional items and goodwill amortisation it contributed £1,364,000 to operating losses. Turnover for the year was £2,555,000 and administrative expenses £1,682,000 before goodwill amortisation and exceptional items. After exceptional items and goodwill amortisation, administrative expenses come to £2,149,000.

During the year TEAMtalk contributed £2,198,000 to the Group's net operating cash outflows, received £34,000 in respect of net returns on investments and servicing of finance, and utilised £43,000 for capital expenditure and received £506,000 on disposal of fixed assets.

Notice of annual general meeting

Notice is hereby given that the second annual general meeting of ukbottling plc will be held at the Economist Building, 25 St James's Street, London SW1A 1HA on Tuesday, 6 May 2003 at 11.00 am for the transaction of the following ordinary and special business:

To consider and if approved to pass resolutions 1 to 7 as ordinary resolutions, and resolutions 8 and 9 as special resolutions:

Ordinary business

1. To receive approve and adopt the report of the directors and the financial statements of the Company for the financial year ended 31 December 2002 together with the report of the auditors thereon.
2. To elect David Annat as a director, who retires pursuant to article 108 of the Company's articles of association.
3. To elect Andrew Galvin as a director, who retires pursuant to article 108 of the Company's articles of association.
4. To re-elect Sir David Sieff as a director, who retires pursuant to article 110 of the Company's articles of association.
5. To re-elect Dr Hans Wagner as a director, who retires pursuant to article 110 of the Company's articles of association.
6. To appoint KPMG Audit Plc as auditors to the Company to hold office from the conclusion of the meeting until the conclusion of the next annual general meeting and to authorise the directors to fix their remuneration.
7. That
 - (i) the directors be and are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 ("The Act") to allot relevant securities (as defined in Section 80(2) of the Act) of the Company up to an aggregate nominal value of £157,945.19 during the year commencing on the date of the passing of this resolution and expiring on the date of the next annual general meeting of the Company provided that the Company may make at any time prior to the expiry of such authority any offer or agreement which would or might require relevant securities of the Company to be allotted after the expiry of such authority and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority hereby conferred had not expired, and
 - (ii) all previous authorisations given by the Company in general meeting or otherwise pursuant to Section 80 of the Act be and are hereby revoked to the extent not previously exercised.

Notice of annual general meeting

continued

Special business

8. That, subject to the passing of the previous resolution, the directors be and are hereby empowered pursuant to Section 95(1) of the Act to allot equity securities (as defined in Section 94(2) of the Act) of the Company within the terms of the authority set out in the previous resolution above as if Section 89(1) of the Act did not apply to such allotment provided that such power be limited to:

- (i) the allotment of equity securities in connection with a rights issue in favour of the holders of ordinary shares in proportion (as nearly as may be) to their respective holdings of such shares subject only to such exclusions or other arrangements as the directors may consider expedient to deal with fractional entitlements or legal or practical considerations arising under the laws of any territory or the requirements of any regulatory body, and
- (ii) the allotment (otherwise than pursuant to paragraph (i) of this resolution) of equity securities up to an aggregate nominal value of £157,945.19.

and shall expire on the earlier of the date falling 15 months after the passing of this resolution and the date of the next annual general meeting of the Company save that the directors may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to such offer or agreement as if the power conferred hereby had not expired.

9. That the Company be and is hereby granted general and unconditional authority (pursuant to Section 166 of the Act) to make market purchases (as defined in Section 163 of the Act) of up to in aggregate 10 per cent. of its own ordinary shares of 1p each in the capital of the Company ("ordinary shares") provided that:

- (i) the maximum price which may be paid for an ordinary share is an amount equal to not more than 5 per cent. above the average of the middle market quotations for the ordinary shares taken from the London Stock Exchange plc Daily Official List for the ten business days before the day on which the purchase is made exclusive of expenses payable by the Company;
- (ii) the minimum price which may be paid for an ordinary share is 1p, and
- (iii) the authority conferred by this resolution shall expire on the conclusion of the next annual general meeting of the Company held after the passing of this resolution, or 6 May 2004 (whichever shall first occur), except that the Company may, before such expiry, enter into a contract for the purchase of its own shares which would or may require to be completed or executed wholly or partly after the expiration of this authority as if the said authority had not expired.

BY ORDER OF THE BOARD

Christina Kennedy

Secretary

2 April 2003

Registered Office:
14 Waterloo Place
London SW1Y 4AR

Registered in England No: 4134501

Please refer to the Notes shown on page 52

Notice of annual general meeting

continued

Notes

1. Any member entitled to attend and vote at the annual general meeting convened by this notice may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.
2. To appoint a proxy, the form enclosed with this notice should be completed and deposited at the offices of the Company's registrars not less than 48 hours before the meeting time of the annual general meeting specified above.
3. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, members will be entitled to attend and to vote at the meeting if they are registered on the Company's register of members 48 hours before the time appointed for the meeting or any adjournment of it.
4. Copies of all the Articles of Association, together with directors' service contracts or memoranda of the terms thereof (other than contracts expiring or determinable by the employing company without compensation within one year) and the register of interests of directors (and their families) in shares of the Company kept in accordance with section 325 of the Companies Act 1985 will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the date of the annual general meeting and will be available for inspection at the place of the annual general meeting for at least 15 minutes prior to and during the meeting.

Form of proxy

For use by ordinary shareholders at the 2003 annual general meeting of ukbelling plc.

I/We (name in BLOCK CAPITALS)

of (address)

being (a) member(s) of ukbelling plc hereby appoint the Chairman of the meeting or (see note 1)

as my/our proxy to act for me/us on my/our behalf at the annual general meeting of the Company to be held on Tuesday, 6 May 2003 at 11.00 am and at any adjournment or postponement thereof, and to vote for and/or against the resolutions and/or abstain from voting in respect of the ordinary shares in the issued share capital of the Company registered in my/our name(s) (see note 2).

Number of resolution as set out in the notice of meeting

ORDINARY RESOLUTIONS	For	Against	Abstain
1. To receive the report and accounts			
2. To elect David Annat			
3. To elect Andrew Galvin			
4. To re-elect Sir David Sieff			
5. To re-elect Dr Hans Wagner			
6. To appoint KPMG Audit Plc			
7. Authority to allot shares			
SPECIAL RESOLUTIONS			
8. Subject to 7 above, authority to allot shares pursuant to section 95(1) of the Act			
9. Authority to buy back shares			

Signature on 2003.
(see note 3)

Shareholders are entitled to appoint one or more proxies (who need not be an ordinary shareholder of the Company) to attend, speak and vote in place of that ordinary shareholder at the annual general meeting.

Notes:

1. An ordinary shareholder may insert the name of a proxy or the names of two alternative proxies of the ordinary shareholder's choice in the space provided, with or without deleting "the Chairman of the meeting". The person whose name appears first on the form of proxy and has not been deleted will be entitled to act as proxy to the exclusion of those whose names follow. Any alteration, deletion or correction made in the form of proxy must be initialled by the signatory/ies.
2. An ordinary shareholder's instructions to the proxy must be indicated in the appropriate space provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as the proxy deems fit in respect of all the votes exercisable by the ordinary shareholder or by his proxy. The proxy will act at his discretion in relation to any other business arising at the meeting (including any resolution to amend a resolution or to adjourn the meeting).
3. This form of proxy must be signed by the appointor or his attorney duly authorised in writing. If the appointor is a corporation this form of proxy should be signed on its behalf by an attorney or duly authorised officer or executed as a deed. In the case of joint holders the signature of any one of them will suffice, but the names of all joint holders should be stated.
4. The completion and lodging of this form will not preclude the relevant ordinary shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such ordinary shareholder wish to do so.
5. Forms of proxy with the power of attorney or other authority (if any) under which it is signed, or a notorially certified copy of the power of authority must be received by the Company's registrars, at the address overleaf, not less than 48 hours before the time fixed for the meeting.



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Melton Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
HUDDERSFIELD
West Yorkshire
HD8 0JQ

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THIRD FOLD AND TUCK IN