

# YEAR 2000 *Financial Highlights*



*% increase  
in profit  
before tax\**



*% increase  
in turnover*



*% increase  
in earnings  
per share\**



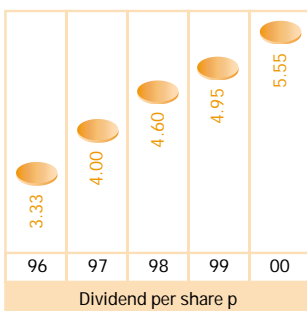
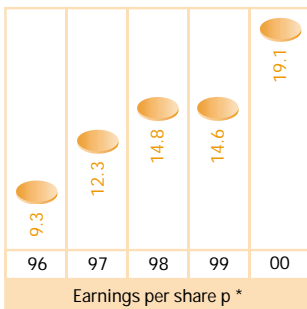
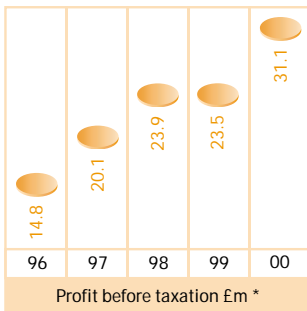
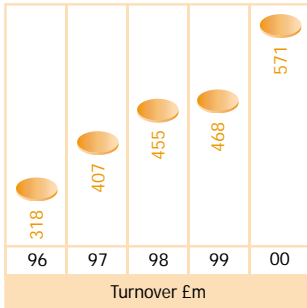
*% increase  
in dividend  
per share*

\* before exceptional items and goodwill amortisation

# Achieving Results

Profit before tax was up 32% to £31.1m\*

Earnings per share rose 31% to 19.1p\*



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\* before exceptional items and goodwill amortisation

## Chairman's Statement



We continue to look to the future with optimism. We are excited about our new casino openings, we are excited about our internet gaming sites and we are particularly excited about our forthcoming internet betting sites.

### Leonard Steinberg, *Chairman*

Who could have believed when we floated our company in 1986 that for the year ended 30 April 2000, the first year of the new millennium, we would have made a profit of over £30m? I am particularly gratified that profit before tax was up 32% to £31.1m and earnings per share rose 31% to 19.1p (before exceptional items and goodwill amortisation); included in this figure was the first time impact of £0.7m resulting from the adoption of FRS 15. Including exceptional items and goodwill amortisation, profit before tax was up 21% to £28.5m and earnings per share rose 18% to 17.3p. It is because of these exciting figures that your Board recommends a final dividend of 3.8p per share, making a total of 5.55p for the full year, an increase of 12%.

Our gaming division improved spectacularly as a result of our acquisitions during the year. In May 1999 we acquired Capital Corporation PLC, and in October 1999 we acquired the three Annabelle's casinos. It is as a result of these acquisitions that our borrowings increased considerably, as did our interest charge. All those pessimists who were saying that the racing business was in decline have been proved wrong, as I am delighted to report that our turnover increased from £417m to £453m and profits increased by 9% from £17.2m to £18.7m. Set alongside our gaming division's improvement in profits from £11.4m to £25.6m, this is undoubtedly a very fine performance.

Further changes have taken place on our executive Board, the most recent being the appointment of Paul Collis, formerly with BSKyB and Seeboard, who takes over as Managing Director of the gaming division from Graham Gibson, who has retired. His appointment took place after the year-end, but it was Bob Wiper's appointment as Chief Executive in April a year ago which set the pattern for a newer, younger (except for me!) and more dynamic Board. Bob underwent open heart surgery in November 1999 and returned to work in February completely fit and reinvigorated. I must extend our thanks to Graham Gibson for his many years with the Group during which time our gaming business has increased from a very small operation to what is now the largest and most profitable gaming division in Great Britain.

We have continued our expansion policy which resulted in the acquisition of Capital Corporation PLC, which had three casinos, the world famous Crockfords, the Colony Club and the Mint, and we then acquired the three Annabelle's casinos situated in Bristol, Coventry and Leicester. These acquisitions have fitted in well, and we expect them to make continuing improvements in profitability. We undertook major refurbishments at our casinos in Renshaw Street, Liverpool, and Derby and also made improvements in Bournemouth and Southport. Work is proceeding apace on our two new casinos in Edinburgh and Margate. The new site in Edinburgh, which will replace the Martell casino, is situated on the waterfront in Leith beside the Royal Yacht Britannia and near the Scottish Office; this is currently an area of huge redevelopment. We are very confident that this casino will be successful. We also continued to pick up betting shops, purchasing 11 from independents in Merseyside, the Midlands and Jersey and have opened five new sites.

The savings we achieved as a result of the Capital acquisition are being sustained and further costs are being extracted, albeit at a much reduced level. We are highly delighted that as part of the Capital deal we acquired the freehold of the Crockfords property, which we believe to be a very valuable asset.

We became the first licensed casino Group in Great Britain to operate on-line when we acquired two internet casinos during the year, avaloncasinos.com and acropoliscasinos.com. We are pleased to report that these are trading satisfactorily. We are about to launch a third internet casino site, stanleyacropolis.com, aimed at both our existing land-based membership and the U.K. market in total. It is also our intention to develop the name of Crockfords and by the end of the year we hope that we will have an "exclusive" internet casino operating under the Crockfords banner. We are well advanced with our plans to open up a sports betting internet site in Malta which we anticipate will be operational by mid-August in time for the beginning of the next domestic football season.

We have successfully relocated our Head Office into premises at 151 Dale Street, Liverpool. The building is 70 years old, but we have refurbished it to a high standard, and it will meet our needs for many years to come. We believe that all our Head Office staff have appreciated the extra space in the building and of course we have been able to provide them with better facilities. As I mentioned before, if any shareholder wishes to come and look at our Head Office, we will be more than delighted to show them around and provide them with a cup of tea, but regrettably not one of my cigars!

During the course of the past year, many projects have been started, and I have mentioned our new casino developments in Edinburgh and Margate. We have also had a busy period in the betting division, continuing with our policy of improving the quality of our shops, and also adding to the estate. The main addition was just after the year-end when we acquired Regency bookmakers, a 23 shop group centred in the Midlands. Within our existing estate we installed air conditioning in a further 63 shops, refurbished another 42, and partially refurbished 51. It is important for our customers to be comfortable when visiting our shops, and to this end our screen systems are designed in such a way as to maximise the visual aspect. This of course means that we ensure that the lighting does not cause glare on the screens. We also endeavour wherever possible to provide seating so that our customers can treat the betting shop as a club, very much in the same way as our casino members treat their casino. We shall continue to ensure that our shops look their best, and that our staff deal with our customers on a friendly and fair basis.

The betting shop business has been going through a period of significant change. This time last year, there was a great deal of talk about the difference in theoretical margins compared with previous years. As the newer course bookmakers have learned their trade this situation has improved, and along with improved results and business mix in the second half of the year we have, as we predicted, seen a return to our normal bottom line margins. The movement off-shore by bookmakers of their telebetting operations has had little effect on our turnover. Our credit business comprises only 0.5% of our total turnover and our average stake per customer is somewhat lower than other major companies; consequently we have been able to withstand any diminution. In fact, for the year, our total turnover increased by 9% and on a like for like basis by 3%, which is a most creditable performance. As I have said many times before, the betting shop business is an established business and whilst the number of shops will shrink slowly, our business is well enough situated physically to withstand any problems. In 1974 there were 15,500 betting shops nationally, and that number has now declined to about 8,800. I would expect over the next five years that the number of shops will decline by another 1,000, unless we receive help from Government with a significant reduction in betting duty.

When I tell you that I have been in the betting and gaming businesses for 45 years, you will understand that I hold a number of very definite opinions, one of which is that these businesses have been substantially over-taxed

for many years. Whilst successive Governments have attempted to help in some way, such help as has been given has usually occurred after a further hike in taxes. We actually pay more in betting and gaming taxation and duty than we make in profits, and surely that is an unbalanced situation. Turnover generally throughout these two industries has been fairly static on a national basis, and there are a number of urgent changes which need to be made. Taxation on betting shops must be reduced, but with that should come a substantial increase in turnover, thereby not necessarily resulting in a reduced contribution to the Treasury. Similarly, the gaming business has become over-taxed, despite comments from the Treasury to the contrary. For a casino to pay punitive rates of gaming duty of up to 40% on gross profit is unreasonable, as this often does not even allow sufficient to cover its expenses. I should like to think that a more enlightened view of betting and gaming taxation will be taken by the Chancellor in his next Budget. No other leisure industries are as heavily taxed.

The Gaming Review Body is accepting representations at this time and will report in July 2001. It will obviously take further time to debate and implement its recommendations. In the meantime (this is this year's paragraph on deregulation), would it not be a good idea to let us have more gaming machines in our casinos, something which is available throughout the world, except in Great Britain? This would lead to increased attendance, which has been showing only minor movement over the last two years. What we want is a minimum of 30 gaming machines in each casino, which can be linked from casino to casino, which are capable of paying out six-figure sums, and which will give our members a variety which is denied them at the present time.

It is important to remember that our company employs nearly 6,000 people. The betting division employs 2,914 people, 2,794 are employed in the gaming division, and there are 59 Stanley Leisure staff including the directors, giving a total of 5,767.

Our support for local and national charities is well known, and this year we again raised a large sum for the Children in Need campaign. As I said in last year's report, interest in this worthy charity is not proving to be as strong as in previous years, so we are looking at other charities and will be interested to hear any ideas from our shareholders and staff. The important thing about a combined effort by all our staff is that it gives a team player incentive, and it would be beneficial to latch on to another successful national charity. We support as many charities as we can, but it is never easy to make the right decision. Our support for the Percent Club, which obliges us to give at least 0.5% of our profits each year to charity, continues and we recommend it to other companies.

In terms of trading in our new financial year, I am pleased to inform you that turnover in both divisions is at an all time high, and this augurs well for the future. However, the racing division saw poor results in Euro 2000 and we just about covered the betting tax. Ascot was very favourable for the punter, with many favourite and fancied horses winning, but the two weeks since have seen some good results. We knew that when we acquired the London casinos there would be increased volatility and whilst we have seen peaks and troughs, we cannot consistently expect the same level of profits as we had this time last year. Since the year-end we have also acquired a new casino in Great Yarmouth which we took over at the beginning of July.

We continue to look to the future with optimism. We are excited about our new casino openings, we are excited about our internet gaming sites, and we are particularly excited about our forthcoming internet betting sites.

In conclusion I should like to thank all my colleague directors, management and staff for their efforts over the past twelve months, and our shareholders for their continuing support in an uncertain market.

Leonard Steinberg  
*Chairman*  
13 July 2000

## Chief Executive's Review

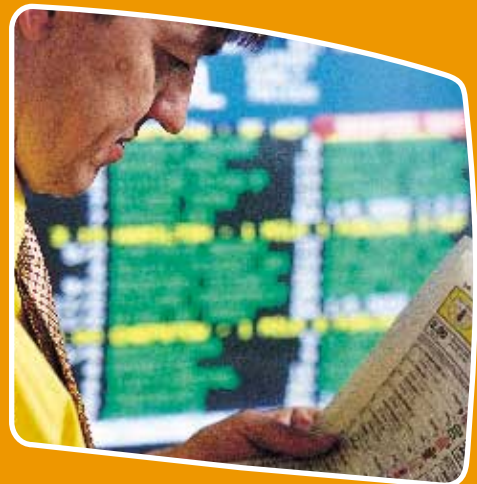


We have successfully integrated the portfolio of London casinos we acquired during the year from Capital Corporation PLC; these have contributed significantly to the Group's results.

My first year with Stanley Leisure was indeed as exciting as I had anticipated in my statement to you last year. I am delighted to report on a year of record profitability for the Group. We have successfully integrated the portfolio of London casinos we acquired during the year from Capital Corporation PLC; these have contributed significantly to the Group's results. We have also made an important entry into e-commerce with the acquisition of the business and assets of two profitable on-line internet casinos and are close to launching our sports betting internet sites.

*Betting Division*

# Ahead of the field



Turnover increased by 9% ... resulting in a 9% increase in profit to a record £18.7m.

1. Continued estate development – on-going quality improvements and acquisitions where appropriate.
2. Operating from 618 betting shops at the year-end.
3. Increased business on football and numbers.
4. Strong performance from our 50% owned venture Stanley International Betting.
5. Internet sports betting sites to be launched shortly – [stanleybet.co.uk](http://stanleybet.co.uk) and [stanleybet.com](http://stanleybet.com).

## Betting Division

Our football business has continued to improve during the year with the increased interest in and coverage of both domestic and European competitions.



Whereas 1998/99 saw an unprecedented run of good racing results in the first half of the year, with the reverse occurring in the second half, this year returned to a more normal pattern of results. Turnover increased by 9%, driven partly by acquisitions made over the last eighteen months. The net margin was in line with last year, resulting in a 9% increase in profit to a record £18.7m.

As predicted last year, our football business has continued to improve during the year with the increased interest in and coverage of both domestic and European competitions. We also saw our numbers business moving forward again as a result of the introduction of a replacement regular draw product and a sustained period of marketing activity and we expect this growth to continue.

Our 50% owned venture Stanley International Betting performed extremely well and, by the end of the year, the number of agencies in Italy had almost doubled to 55. Our network has continued to expand since the end of the financial year and we now have 75 agencies in operation. As a result of the introduction of evening and Sunday racing and the 50% reduction in duty from 10% to 5%, our Republic of Ireland business saw a substantial increase in turnover and a satisfactory increase in net profit. Whilst we expect the increase in turnover to slow down over the next year, we feel that our business will continue to grow as a result of the country's buoyant economy. Our Jersey operation also traded well and in January we acquired a shop in St. Brelades, this being the nearest trading shop to our Airport outlet which, as reported previously, did not perform as we had hoped. This acquisition enabled us to close the Airport shop and transfer a proportion of that turnover to our new operation.

Whilst we anticipated that the roll-out programme for our electronic point of sale system would commence prior to the end of the financial year, progress has unfortunately not been as quick as we would have liked due to the complexities of the system, and we are still in the development stage. Bearing in mind the capital commitment, it is essential that the system is a proven success before we commence our roll-out programme. We are hopeful that this will be this year. The process of upgrading our screen system continues and by the end of 2000/01 we will have replaced the screens in over a third of our estate.



# Our best bet

The Standards initiative launched in February 1999 was a tremendous success and further training courses, attended by all staff, took place during the course of the year. Middle and senior management of the division are committed to the continued success of this initiative, which is designed to give Stanley customers the highest level of customer service within the industry.

In my report last year, I referred to the development of a telebetting service. During the course of 1999, numerous competitors' telebetting operations were moved off-shore and we decided not to set up a new telebetting operation based in the U.K. as this would have been uncompetitive against the zero tax regimes offered by internet sites and the low tax regimes offered by these new overseas telebetting operations. We therefore changed our focus to the internet and anticipate that from mid-August our U.K. site, stanleybet.co.uk and our overseas site, stanleybet.com will be up and running. This is an exciting development within the betting division and we look forward to challenges ahead for us in this new channel to our market.

The change in emphasis from the Showcase sponsorship initiative to sponsoring more T.V. races has proved to be successful and it is our intention to continue with this policy in the coming year. I am sure you will see a number of races named after our U.K. internet betting site, stanleybet.co.uk.

*Fruit Machines*

*Football Matches*

*Race Sponsorship*



We have also made an important entry into e-commerce with the acquisition of the business and assets of two profitable on-line internet casinos and are close to launching our sports betting internet sites.



stanleybet.com



stanleybet.co.uk

acropoliscasinos.com



stanleyacropolis.com



crockfordscasinos.com



avaloncasinos.com



A good deal for

2000



The gaming division has had an interesting year, dominated by the acquisition and integration of our new casinos in London ... Divisional turnover increased 131% from £50.9m to £117.9m and operating profit rose 123% from £11.4m to £25.6m.

1. Acquisition of Capital Corporation PLC, the London casino Group.
2. Acquisition of Annabelle's casino Group.
3. Operating from 30 casinos at the year-end.
4. Acquisition of two internet gaming sites, [acropoliscasinos.com](http://acropoliscasinos.com) and [avaloncasinos.com](http://avaloncasinos.com).
5. Further gaming sites to be launched shortly – [stanleyacropolis.com](http://stanleyacropolis.com) and [crockfordscasinos.com](http://crockfordscasinos.com).

## Gaming Division



We look forward to the extension in opening hours until 6 a.m. which is a positive step in providing our members with greater choice.

The gaming division has had an interesting year, dominated by the acquisition and integration of our new casinos in London. I am pleased to inform you that the excellent performance of these casinos had a major impact on our profitability. Divisional turnover increased 131% from £50.9m to £117.9m and operating profit rose 123% from £11.4m to £25.6m. The London casinos performed particularly strongly in the first half of the year and continued to trade well in the second period. Our provincial casino estate performed in line with last year after taking into account FRS 15. We increased our number of provincial casinos from 24 to 27 with the acquisition of the three Annabelle's casinos; our casino portfolio is a truly nationwide business with representation stretching from Bournemouth, Southampton and Margate in the south to Glasgow and Edinburgh in Scotland. Our new purpose-built casino in Newcastle continued to perform well in the year and has been used as a blue-print for our exciting new developments in Edinburgh and Margate. On-going estate improvement saw us refurbish our casinos in Liverpool and Derby.

The improvement in our machine takings has continued as we have now been able to obtain a slightly improved quality and variety of machine. However, as the Chairman has discussed in his statement, the industry is still not permitted to provide its customers the level of choice we believe they would appreciate.

We look forward to the extension in opening hours until 6 a.m. which is a positive step in providing our members with greater choice.



# Hitting the jackpot

Leonard has mentioned my operation and my resultant leave of absence. I should like to give a special thanks to my executive colleagues who "manned the ship" so well whilst I was convalescing; it is reassuring to see the strength in depth of the Company's senior management at such a time.

I am pleased to announce the recent appointment of Chris Brown as head of e-commerce operations. Chris has considerable experience in this area and will be responsible for developing our internet business.

I must also re-iterate Leonard's appreciative words regarding the contribution from all our staff. We are a service business and our loyal and dedicated staff remain the bedrock of our continued success.

Bob Wiper  
Chief Executive  
13 July 2000

Premiere Gaming



# Finance Director's Review

## Operating Results

Group turnover increased in the year by 22% to £571.4m. Before exceptional items and goodwill amortisation, profit before tax increased by 32% to £31.1m; including these items the growth was 21% to £28.5m. The exceptional items represented reorganisation costs relating to the integration of Capital Corporation PLC into the Group together with associated restructuring costs.

The acquisitions made during the year contributed significantly to the results, accounting for £68.9m of the increased turnover.

## Cash Flow and Funding

The Group remains highly cash generative; the significant increase in operating profits resulted in the Group's operational cash flow increasing from £32.0m to £45.1m. This was equivalent to 40.2p per share (1999 – 28.8p).

Gross capital expenditure for the year amounted to £15.4m, reflecting the Group's ongoing investment in the quality of our premises; this included a proportion of our new casino developments in Edinburgh and Margate. Net interest paid rose to £11.5m, reflecting the increased net borrowings following the acquisition of Capital Corporation PLC. Taxation and dividend payments absorbed £18.0m. The Group made gross acquisitions of £81.6m in the year, comprising the balance of the Capital Corporation PLC acquisition of £62.4m (£26.2m was incurred in 1998/9), the acquisition of our internet casinos for £8.2m, the purchase of the three casino Annabelle's Group for £7.0m and various other betting division acquisitions of £4.0m. Consequently, net cash outflow before financing rose to £82.7m. £23.1m of loans and hire purchase finance were also acquired from the subsidiaries purchased. Thus net borrowings at the year-end rose to £173.8m (1999 – £70.8m), representing 70.1% of shareholders' funds (1999 – 30.2%).

Net interest payable increased to £12.0m (1999 – £2.4m) due to the rise in net borrowings; this resulted in interest cover of 3.4 times. The interest charge includes £0.56m amortisation in respect of debt finance costs which, in accordance with FRS 4, are being amortised over a five year period commencing this year.

## Treasury Policy

The Group makes offsetting arrangements, whereby cash surpluses are offset against overdrafts elsewhere in the Group. Drawdowns on revolving credit facilities are controlled centrally for varying periods depending on market rates and cash flow projections. A stand-by facility is available solely to meet potential gaming losses in that division at a level agreed with the Gaming Board.

The Group is exposed to interest rate risk on borrowings. We believe that maintaining a significant proportion of the Group's borrowing at a floating rate is a sensible approach when taking into account a long term view regarding interest rates, particularly within Europe. However, where it considers appropriate, the Group uses swaps, caps and other interest rate instruments to achieve what it considers to be a balanced risk profile. At the year-end the Group had in place the following swaps:

- i) a £15m swap at a rate of 6.15% until January 2003;
- ii) a £30m swap at a rate of 5.52% until June 2004 (incorporating a one-off right of the bank to cancel in March 2001);
- iii) a £22m swap at a rate of 5.885% until June 2001; and
- iv) a £6m swap at a rate of 7.15% until March 2001 (inherited from Capital Corporation PLC).

Since the year-end we have entered into a £20m cancellable collar arrangement until June 2005 with the cap at 7.5% and the floor at 5.63%; the bank has a one-off right to cancel the collar in June 2002.

We have also re-negotiated the £15m swap at 6.15% to a rate of 5.98% until January 2003 (incorporating a quarterly right of the bank to extend the swap to April 2005).

### Exchange Rates and EMU

The Group is not exposed to significant exchange rate risk although trading and investment in the Republic of Ireland does give some exposure to fluctuations against the Irish punt. To some extent this exposure is hedged by intra Group indebtedness. Trading in Europe, through our 50% holding in Stanley International Betting Limited, does not create any significant currency exposure as the assets and liabilities are largely denominated in sterling.

The advent of European Monetary Union (EMU) will not have a material effect on the Group until the introduction of common coinage.

### Taxation

The overall taxation charge for the year of £8.9m reflected an effective rate of 31.2%. The primary reason for the difference from the statutory rate of 30% was the first time goodwill charge. It is anticipated that the tax rate going forward will be similar to this year's rate.

The tax paid figure for the year increased to £12.3m; this was partially attributable to the introduction of the Corporation Tax Self Assessment Scheme, under which £3.9m (1999 – £Nil) of the estimated 2000 liability fell due for payment in the year.

### Shareholder Returns

Before exceptional items and goodwill amortisation, earnings per share increased by 31% from 14.6p to 19.1p. Including these items the growth was 18% to 17.3p. The Board is recommending a final dividend of 3.8p, an increase of 15%, reflecting our confidence in the future. With shareholder approval, this will make the total dividend for the year 5.55p against 4.95p, an increase of 12%. At this level, the dividend is covered 3.1 times by earnings.

### Share Price and Market Capitalisation

At 30 April 2000, the Group's share price was 181.5p (1999 – 252.5p). The high and low prices during the year were 299.5p and 181p respectively. At 30 April 2000, the market capitalisation of the Group was £204m.

### Implementation of FRS 15

The Group has complied with the provisions of FRS 15, which has resulted in an increased depreciation charge in respect of properties of £0.7m (1999 – £Nil).

### Accounting and Controls

Stanley Leisure is predominantly a cash business and it is therefore vitally important that, as the Group expands, its accounting systems and controls keep pace. The Group has its own internal audit team which performs regular unit and head office based audits. Along with the standard monthly management accounts, weekly key performance indicators are produced for both divisions for review by senior management.

### Year 2000

During the past two years, the Group has been planning to ensure that the Year 2000 date change would not adversely affect the Group's information systems and facilities. We are pleased to report that no significant problems arose as a result of the Year 2000 date change. The residual risk of any further date change issues is considered remote. No significant costs were incurred during the year as a result of the Year 2000 project.

Michael Riddy  
Finance Director  
13 July 2000

# Directors and Company Secretary



## Executive Directors

Leonard Steinberg (63), Executive Chairman, started the business of the Group in 1958 and has been primarily responsible for its steady growth over 40 years. He has been a member of the council of the British Casino Association for over 20 years. In 1997 and 1998 he received awards for North West Business Person of the Year. In July 1999 he was awarded an Honorary Doctorate by the University of Salford. He also sits on many charitable committees.

Bob Wiper (45), Chief Executive, joined the Group in April 1999. He was previously Chief Executive of the coach division of National Express Group PLC for 5 years. Bob has previously held senior management positions within National Tyres and NFC plc.

Michael Riddy ACA (44), Finance Director, trained with Coopers & Lybrand. He joined the Board in 1998, having previously been Finance Director of Hamleys plc from 1990. Prior to joining Hamleys Michael had experience with BAT Stores Limited and the Burton Group plc.

John Whittaker (49), Managing Director of the betting division, became a Board Director in 1997. He joined the Group in 1978 and has been responsible for the successful integration and operation of the many betting shop acquisitions made by the Group throughout the U.K. John is a council member of the Betting Office Licensees Association.

Paul Collis (47), Managing Director of the gaming division, became a Director in June of this year. He was previously at BSkyB, where he was Managing Director of the Sky Services division. Paul has previously held senior management positions with Seaboard plc and a Netherlands based mobile telecoms operator.

Allen Lowry (53), Director of Administration, has been employed with the Group for over 25 years. He became a Director in 1975.



### Non-Executive Directors

Len Cowburn (65), Deputy Chairman and senior independent Non-Executive Director, has been a Non-Executive Director of the Group since 1994. He was formerly Deputy Chairman of the William Hill Organisation. He also served as Chairman of the Bookmakers' Committee and as a member of the Levy Board. He was a founder Director of SIS, a council member of the Betting Office Licensees Association and a Director of Bookmakers Afternoon Greyhound Services.

David Pearl (55), was appointed a Non-Executive Director in 1994. He is a Coopers & Lybrand trained Chartered Accountant specialising in the provision of corporate finance advice to small public companies. He was previously Chairman of Premier Asset Management plc and London Securities plc. He has also been Vice Chairman of the Medway Ports Authority, Chairman of the Crown Suppliers and served as a Westminster City Councillor during which time he was Deputy Lord Mayor.

Robert Waddington (58), was appointed a Non-Executive Director in 1998. He was a Director of Hambros Bank Limited until 1997. He is now Chairman of M. P. Industries Limited and a Non-Executive Director of a number of other private companies.

Jonathan Steinberg (33), was appointed a Non-Executive Director in January of this year. He has extensive management experience in the catering industry and has developed a successful restaurant business.

### Company Secretary

Sarah-Jane Goulbourne (35), joined the Group in May 1999 from Trinity plc. She was previously with Capital Bank plc and is a solicitor and chartered secretary.



### Board Committees

#### Audit Committee

- D. B. Pearl (Committee Chairman)
- L. P. Cowburn
- J. Steinberg
- R. Waddington

This Committee reviews the Group's internal control, accounting policies and financial reporting.

#### Remuneration Committee

- L. P. Cowburn (Committee Chairman)
- D. B. Pearl
- R. Waddington

This Committee sets the remuneration of the Group's Executive Directors and senior executives.

#### Nomination Committee

- R. Waddington (Committee Chairman)
- L. Steinberg
- R. Wiper
- L. P. Cowburn
- D. B. Pearl
- J. Steinberg

This Committee considers the appointment of the Group's Directors.

#### Banking and Finance Committee

- R. Waddington (Committee Chairman)
- L. Steinberg
- A. M. Riddy
- D. B. Pearl

This Committee oversees banking and treasury policy.

# Directors' Report

The Directors present their Report and audited Financial Statements of the Company and the Group for the year ended 30 April 2000.

## Principal Activities

The principal activities of the Group are the operation of licensed betting offices and casinos.

## Review of Operations

The Consolidated Profit and Loss Account on page 32 shows a profit on ordinary activities before taxation of £28.5m (1999 – £23.5m).

Detailed information on the activities of the two trading divisions is contained in the Chairman's Statement, Chief Executive's Review and Finance Director's Review on pages 2 to 17.

## Dividends and Reserves

The Directors declared an interim dividend of 1.75p per share (1999 – 1.65p) which was paid on 21 February 2000. They now recommend a final dividend of 3.8p per share (1999 – 3.3p), making a total dividend for the year of 5.55p per share (1999 – 4.95p).

The final dividend will be paid on 18 September 2000 to shareholders whose names are on the Register of Members at the close of business on 25 August 2000.

After provision for the above dividends amounting to £6.2m (1999 – £5.5m), the retained profit for the year of £13.1m has been transferred to reserves.

## Fixed Assets and Acquisitions

Changes in fixed assets during the year are shown in notes 8, 9, 10 and 11 to the Financial Statements. Further details of the principal items of capital expenditure and details of acquisitions during the year are given in the Finance Director's Review and in note 25 to the Financial Statements.

## Share Capital

Details of the Company's share capital and share options are included as note 18 to the Financial Statements.

On 27 September 1999 the Company established Stanley Leisure QUEST Trustees Limited (the "QUEST"). Since 6 October 1999, 751,426 shares have been allotted to the Trustees of the QUEST. It is the Company's intention to exercise Savings Related Share Options through the QUEST. On 13 October 1999 the Stanley Leisure Employee Benefit Trust (the "EBT")

was established. The EBT is intended to operate as a vehicle for granting options under the Approved and Non-Approved Executive Share Option Schemes.

## Substantial Shareholders

As at 30 June 2000 the following companies, or their associates, had reported an interest in more than 3% of the Company's issued share capital.

	Percentage held
Mercury Asset Management Ltd	5.56%
Standard Life Investments	5.26%
Phillips and Drew Life Limited	4.80%
Scudder Threadneedle Group	4.26%
Royal & SunAlliance Insurance Group plc	4.24%

## Directors

The current Board of Directors is shown on pages 18 and 19 of this report. All of the Directors except Paul Collis and Jonathan Steinberg served throughout the year.

Jonathan Steinberg was appointed a Director on 1 January 2000. Paul Collis was appointed a Director on 8 June 2000. They will both seek re-election at the Annual General Meeting. Len Cowburn and John Whittaker retire by rotation at this year's Annual General Meeting and, being eligible, offer themselves for re-election. All the above have service contracts with the Company which can be determined by 12 months' notice. Claud Revill retired from the Board on 31 December 1999. Graham Gibson retired from the Board on 8 May 2000. Apart from service contracts, no Director of the Company had any interest in any contracts with the Company or its subsidiaries during the year.

## Directors' Interests

The interests of the Directors who held office at 30 April 2000 and their families are shown in the Report of the Board on Directors' Remuneration on pages 22 to 25.

## Employees

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

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

#### Health and Safety

The Group recognises the importance of a safe working environment for both its employees and customers and to this end gives careful consideration to the promotion of risk management procedures. In view of this, the Group has established a broad-based Health and Safety Committee which meets on a regular basis.

#### Political and Charitable Donations

No political contributions were paid during the year. Donations for charitable purposes within the U.K. amounted to £96,000.

#### Corporate Governance

A separate statement on the Group's policy on Corporate Governance is set out on pages 26 and 27.

#### Payment of Suppliers

It is the policy of the Group that each company should agree appropriate terms and conditions for its transactions with suppliers by means ranging from standard written terms to individually negotiated contracts. Payments are normally made in accordance with these terms and conditions, provided that they have also been complied with by the supplier. All Group companies have complied with this policy during the year. At 30 April 2000 the Company trade creditors represented 45 days of purchases (1999 – 45 days) and Group trade creditors represented 46 days of purchases (1999 – 47 days).

#### Close Company Status

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company and there has been no change in this respect since 30 April 2000.

#### Auditors

PricewaterhouseCoopers offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

By order of the Board  
Sarah-Jane Goulbourne  
*Company Secretary*  
13 July 2000

# Report of the Board on Directors' Remuneration

## Compliance

The Company follows the principles and provisions relating to Directors' remuneration contained in the Combined Code issued by the London Stock Exchange.

## Remuneration Policy

The Committee determines an overall remuneration package for Executive Directors in order to attract and retain high quality management capable of achieving the Group's objectives. The main components of each remuneration package are basic annual salary and benefits, an annual bonus scheme based on performance, share based incentives and pensions. The Committee has held five meetings during the year, a number of which were with external advisers.

## Basic Annual Salary

Basic salaries are reviewed annually by the Committee and are set relative to comparable jobs in selected relevant companies. The Committee takes advice from independent professional remuneration consultants.

## Annual Bonus

The Company operates an annual performance related bonus scheme for a number of executives, including Executive Directors. This provides for annual cash bonuses up to a maximum of 50% of base salary subject to the achievement of challenging earnings growth, profit and personal performance targets. These payments do not form part of pensionable salary.

The Committee considers that the performance conditions applying to annual bonus schemes which require an increase in the Company's earnings per share are relevant and stretching and that this results-driven approach is in the interests of shareholders. The details of bonuses earned by Executive Directors in the period are shown in the table on page 23.

## Share Option Schemes

The Committee approves the terms, conditions and allocation of share options for senior executives. The Committee believes that share based incentives are an important part of aligning the interests of shareholders and employees in enhancing the long term performance of the Company.

The Company operates an Inland Revenue Approved Savings Related Share Option Scheme. The scheme is open to eligible employees, including Executive Directors. Inland Revenue rules limit the amount which can be saved to £250 per month. At the end of three or five years, members of the scheme will receive a bonus to add to their savings and may use all or part of their savings and bonus to purchase shares at the option price which can be set by the Board at up to 20% discount to the market price at the start of the savings plan.

The Company also operates both an Inland Revenue Approved and a Non-Approved Executive Share Option Scheme. Both Schemes incorporate performance target requirements which must be achieved prior to the exercise of options granted. The targets require that in respect of options granted under the Non-Approved Scheme after April 2000 and in respect of options granted under the Approved Scheme after July 2000, the normalised earnings per share of the Company over any three consecutive financial years commencing no earlier than the financial year in which such options are granted have grown by no less than 15% above inflation over the same period.

As part of his recruitment package, Bob Wiper was granted 100,000 share options on 4 May 1999 at an exercise price of 252.5p per share. 11,800 were granted under the 1996 Inland Revenue Approved Executive Share Option Scheme. The balance were granted pursuant to a Deed ("the Deed Option") which relates solely to Bob Wiper.

The principal terms of the Deed Option (which does not constitute an Inland Revenue approved share option scheme) and for which no payment was required are:

- i) Bob Wiper is the only recipient of options under the Deed Option which may normally only be exercised while he is employed within the Group and at a time when such exercise would be in accordance with the Model Code for transactions in securities by Directors;
- ii) Options may not be exercised unless the Company's auditors first confirm to the Committee that the relevant performance target, comprising an increase in earnings per share of the Company over a continuous three year period commencing on or after the beginning of the accounting reference period of the Company in which the date of grant falls equal to or greater than the increase in the Retail Prices Index over the same period plus 6%, has been satisfied;
- iii) The Committee can vary the performance target set;
- iv) If Bob Wiper leaves the Group in certain circumstances such as death, injury or retirement he has extended rights of exercise;
- v) The Committee has a discretion to allow Bob Wiper a time extension to exercise options if he leaves in circumstances other than those above;
- vi) The provisions in the Deed Option relating to the persons to or for whom benefits are provided, limitations on the number of securities, cash or other benefits subject to

the Deed Option, the maximum entitlement and the basis for determining the entitlement to, and the terms of, securities, cash or other benefits to be provided and for the adjustment thereof in the event of a capitalisation issue, rights issue or open offer, sub-division or consolidation of shares or reduction of capital or any other variation of capital cannot, except for minor amendments, be altered to the advantage of Bob Wiper without the prior approval of shareholders in general meeting.

Benefits under the Deed Option will not be pensionable.

The Committee intends to continue its policy of granting share options on an ad hoc basis as and when it is believed to be warranted.

#### Pensions

Leonard Steinberg, Allen Lowry and Graham Gibson are members of the Stanley Leisure plc Directors' Pension Fund which was established to provide Directors with a pension of 2/3rds of final pensionable salary at retirement (Graham Gibson 49.17%) and is non-contributory. Bob Wiper has a self-administered pension scheme to which the Group contributes 15% of basic salary. For the year ended 30 April 2000, Michael Riddy was a non-contributory member of the Stanley Leisure 1988 Retirement Benefit Scheme, the benefits of which will be transferred into a self-administered pension

#### Directors' Remuneration

The aggregate remuneration of the Directors of the Company for the year to 30 April 2000 was as follows:

	Salary and fees £'000	Benefits £'000	Bonus £'000	Other £'000	Total 2000 £'000	Total 1999 £'000
<b>Executive:</b>						
L. Steinberg	203	34	75	–	312	240
R. Wiper	179	16	60	–	255	18
A. M. Riddy	84	11	30	–	125	68
J. S. Whittaker	90	13	40	–	143	95
T. A. Lowry	75	13	25	–	113	83
G. W. Gibson	90	9	25	–	124	95
C. M. Kershaw (retired)	–	–	–	–	–	187
P. A. Olive (retired)	–	–	–	–	–	120
<b>Non-Executive:</b>						
L. P. Cowburn	20	–	–	–	20	18
D. B. Pearl	18	–	–	–	18	18
R. Waddington	18	–	–	–	18	7
J. Steinberg	6	–	–	–	6	–
G. C. Revill (retired)	17	–	–	25	42	25
Lord T. J. Thomas (resigned)	–	–	–	–	–	7
	800	96	255	25	1,176	981

The disclosure for Claud Revill is for the period to the date of his retirement from the Board. The 'other' amount of £25,000 was paid to Claud Revill after his retirement to mark the end of his association with the Company.

Pension contributions totalled £351,000 (1999 – £353,000), including £64,000 in respect of a former Director.

scheme. From 1 May 2000 the Group contributes 15% of basic salary to this scheme. John Whittaker is a member of the Stanley Leisure plc Executive Pension Plan which will provide him with a pension of 37/60ths of final pensionable salary at retirement and is non-contributory.

#### Fees

The fees payable to Non-Executive Directors are discussed by a sub-committee of Executive Directors comprising the Chairman and Chief Executive. This sub-committee makes recommendations to the full Board for approval of fees payable to Non-Executive Directors.

#### Service Agreements

The Executive Directors have service agreements which are terminable by the Company on 12 months' written notice or by the Director on six months' written notice. In the event of the early termination by the Company of any Executive Director's service agreement the amount payable by the Company under the terms of such service agreement (subject to the principle of mitigation) would be an amount equal to 12 months' salary and benefits.

In addition, the Company has entered into letters of appointment with its Non-Executive Directors which are terminable by either party on 12 months' written notice.

## Report of the Board on Directors' Remuneration continued

Pension benefits earned by the Directors, except for Bob Wiper who has a self-administered pension scheme, are as follows:

	Increase in accrued pension during year £'000	Transfer value of increased pension £'000	Total accrued pension at year-end £'000
L. Steinberg	2	–	135
A. M. Riddy	1	9	2
J. S. Whittaker	4	43	44
T. A. Lowry	3	27	48
G. W. Gibson	4	52	40

### Interests in Shares

The Directors have interests in the ordinary shares of the Company, which are included in the Company's Register of Directors' Interests, as follows:

#### (a) Shareholdings

	Ordinary shares of 25p each			
	At 30 April 2000		At 3 May 1999	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
<b>Executive:</b>				
L. Steinberg	23,801,349	2,290,000	23,801,349	2,290,000
R. Wiper	20,000	–	–	–
A. M. Riddy	2,380	–	–	–
J. S. Whittaker	111,704	–	83,754	–
T. A. Lowry	57,396	–	77,216	–
G. W. Gibson	92,324	–	79,374	–
<b>Non-Executive:</b>				
L. P. Cowburn	10,000	–	10,000	–
D. B. Pearl	2,500	–	2,500	–
R. Waddington	10,000	–	10,000	–
J. Steinberg	100,000	–	100,000*	–

\* at date of appointment

## (b) Options

	Number of options at 30 April 2000	Option price p	(Exercised)/ granted in year	Date of exercise/ grant	Market price on date of exercise p	Lapsed in year	Number of options at 3 May 1999	Exercisable between
L. Steinberg	–	239.0	–	–	–	(7,127) <sup>§</sup>	7,127	–
	12,847*	233.5	12,847	04.11.1999	–	–	–	04.11.2002 – 04.11.2009
	12,153 <sup>¥</sup>	233.5	12,153	04.11.1999	–	–	–	04.11.2002 – 04.11.2009
	10,289 <sup>§</sup>	164.0	10,289	24.02.2000	–	–	–	01.05.2005 – 31.10.2005
R. Wiper	11,800*	252.5	11,800	04.05.1999	–	–	–	04.05.2002 – 04.05.2009
	88,200 <sup>¥</sup>	252.5	88,200	04.05.1999	–	–	–	04.05.2002 – 04.05.2009
A. M. Riddy	9,850*	303.5	–	–	–	–	9,850	15.09.2001 – 15.09.2008
	15,150 <sup>¥</sup>	233.5	15,150	04.11.1999	–	–	–	04.11.2002 – 04.11.2009
	10,289 <sup>§</sup>	164.0	10,289	24.02.2000	–	–	–	01.05.2005 – 31.10.2005
J. S. Whittaker	–	133.2	(12,950) <sup>‡</sup>	06.10.1999	257.50	–	12,950	01.10.1999 – 31.03.2000
	–	190.5	(15,000) <sup>†</sup>	09.08.1999	298.50	–	15,000	27.02.1998 – 27.02.2005
	12,847*	233.5	12,847	04.11.1999	–	–	–	04.11.2002 – 04.11.2009
	22,153 <sup>¥</sup>	233.5	22,153	04.11.1999	–	–	–	04.11.2002 – 04.11.2009
	10,289 <sup>§</sup>	164.0	10,289	24.02.2000	–	–	–	01.05.2005 – 31.10.2005
T. A. Lowry	–	133.2	(5,180) <sup>‡</sup>	06.10.1999	257.50	–	5,180	01.10.1999 – 31.03.2000
	1,443 <sup>§</sup>	239.0	–	–	–	–	1,443	01.04.2002 – 30.09.2002
	8,000 <sup>¥</sup>	233.5	8,000	04.11.1999	–	–	–	04.11.2002 – 04.11.2009
	4,725 <sup>§</sup>	164.0	4,725	24.02.2000	–	–	–	01.05.2003 – 31.10.2003
G. W. Gibson	–	133.2	(12,950) <sup>‡</sup>	06.10.1999	257.50	–	12,950	01.10.1999 – 31.03.2000

† The Stanley Leisure plc 1986 Inland Revenue Approved Executive Share Option Scheme

\* The Stanley Leisure plc 1996 Inland Revenue Approved Executive Share Option Scheme

¥ The Stanley Leisure plc 1999 Executive Share Option Scheme

‡ The Stanley Leisure plc 1987 Inland Revenue Approved Savings Related Share Option Scheme

§ The Stanley Leisure plc 1996 Inland Revenue Approved Savings Related Share Option Scheme

Gains crystallised on the exercise of options were £32,297 by John Whittaker, £6,439 by Allen Lowry and £16,097 by Graham Gibson.

The market price of the shares at 30 April 2000 was 181.5p (2 May 1999 – 252.5p) and the range during the year was 181p to 299.5p.

There have been no transactions by the Directors in the shares of the Company or under Share Option Schemes subsequent to 30 April 2000.

Len Cowburn  
Chairman of the Remuneration Committee  
13 July 2000

# Corporate Governance

The Combined Code establishes fourteen Principles of Good Governance which are split into the four areas described below:

## (1) Directors

The Company is controlled through the Board of Directors which comprises six Executive and four Non-Executive Directors, three of whom are independent. As the Chairman is primarily responsible for the running of the Board, he ensures that all Directors receive sufficient relevant information on financial, business and corporate issues prior to meetings. The Chief Executive's responsibilities focus on co-ordinating the Company's business and implementing Group strategy. All Directors are able to take independent professional advice in the furtherance of their duties if necessary.

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

The Board has established a number of standing committees. Each committee operates within defined terms of reference. The principal committees are the Audit Committee, the Remuneration Committee, the Nomination Committee, the Banking and Finance Committee and an Administration Committee which deals with specified day to day matters of an administrative nature within its terms of reference. The minutes of the standing committees are circulated to and reviewed by the Board of Directors.

The Nomination Committee makes recommendations to the Board on all new appointments. Its members meet as required and also advise on general Board composition. The Banking and Finance Committee meets not less than three times a year and makes recommendations to the Board regarding banking and treasury policy.

## (2) Directors' Remuneration

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

The Report of the Board on Directors' Remuneration is set out on pages 22 to 25 and includes details of Directors' incentive payments and the related performance criteria.

## (3) Relations with Shareholders

The Company encourages two way communication with both its institutional and private investors and responds quickly to all queries received. The Chief Executive and the Finance Director meet regularly with analysts and institutional shareholders. All shareholders will have at least 20 working days' notice of the Annual General Meeting at which all Directors and Committee Chairmen are introduced and available for questions.

## (4) Accountability and Audit

### (a) Financial Reporting

Through the detailed reviews of the performance and financial position in the Chief Executive's Review (on pages 5 to 15) and the Finance Director's Review (on pages 16 and 17), together with the Chairman's Statement (on pages 2 to 4) and the Directors' Report (on pages 20 and 21), the Board seeks to present a balanced and understandable assessment of the Group's position and prospects. The responsibilities of the Directors for the Financial Statements are described on page 29.

### (b) Internal Financial Control

The Directors are responsible for the Group's system of internal financial control. Such a system can provide only reasonable but not absolute assurance against material misstatement or loss. Divisional managers regularly visit operations throughout the Group and review with local managers the financial and business issues affecting the Group's operations. In addition the internal audit function reviews and reports on actual performance against laid down standards and procedures.

Other key features of the internal financial control system are:

- (i) identification, evaluation and management of the major financial risks facing the Group;
- (ii) a Group Procedures Policy Manual detailing principal accounting and other policies;
- (iii) a clearly defined organisational structure and well established financial reporting and control systems;
- (iv) preparation of comprehensive annual budgets, which are reviewed and approved by the Board. Detailed monthly management accounts are prepared and variances against budget and prior years reviewed; and
- (v) monitoring of controls and policies by all levels of management.

The Board has delegated the implementation of effective internal financial control procedures throughout the Group to executive management and has reviewed the effectiveness of these procedures for the current year.

- (c) **Audit Committee and Auditors**  
The Audit Committee, comprising all of the Non-Executive Directors, has specific terms of reference which deal with its authority and duties. It meets three times a year with the internal and external auditors attending by invitation. The Committee overviews the monitoring of the adequacy of the Group's internal controls, accounting policies and financial reporting and provides a forum through which the Group's external auditors and internal audit function report to the Non-Executive Directors. Part of each meeting of the Audit Committee is held between the Non-Executive Directors and external auditors in private.

#### Internal Control

The Group has adopted the transitional approach to the Internal Control aspects of the Combined Code as set out in the letter from the London Stock Exchange to listed companies in September 1999.

The Group has established a risk based approach to control evaluation that covers business, operational and compliance as well as financial control. This process is subject to both review and assessment by the Board.

The Board confirms that the Company has substantially established the necessary procedures to implement the guidance on internal controls provided in the Turnbull Report on Internal Control and expects to be in full compliance with the guidance by 29 April 2001.

#### Compliance Statement

Except as noted above, the Company has complied with the provisions set out in Section 1 of the Combined Code throughout the year ended 30 April 2000.

Len Cowburn  
*Deputy Chairman*  
13 July 2000

# Auditors' Report to the Members of Stanley Leisure plc

We have audited the Financial Statements on pages 29 to 54 (including the additional disclosures on pages 22 to 25 relating to the remuneration of Directors) which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 29 and 30.

## Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 29, this includes responsibility for preparing the Financial Statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and 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 United Kingdom Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the Financial Statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements.

We review whether the statement on pages 26 and 27 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's Corporate Governance procedures or its risk and control procedures.

## 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 Company's and 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 at 30 April 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
Manchester  
13 July 2000

## Directors' Responsibilities

The Directors are required by the Companies Act 1985 to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Company and Group as at the end of the financial year and of the profit or loss for the financial year.

The Directors consider that in preparing the Financial Statements on pages 29 to 54 the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Group keeps accounting records which disclose with reasonable

accuracy the financial position of the Group and which enable them to ensure that the Financial Statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Financial Statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

## Accounting Policies

### Accounting Convention

The Financial Statements have been prepared under the historical cost convention as modified by the revaluation of certain properties and licences, and in accordance with applicable accounting standards.

### Basis of Consolidation

The consolidated Financial Statements include those of the Company and all of its subsidiaries. Financial Statements are prepared for the financial year ending on the Sunday nearest to 30 April. For the current year this Sunday was 30 April 2000, resulting in a 52 week trading period. The results of businesses acquired or disposed of are accounted for from or to the effective date of acquisition or disposal.

### Goodwill

Since 2 May 1999, goodwill arising on consolidation (being the excess of cost of acquisition over the fair value of net assets

of subsidiaries at the date of acquisition) and purchased goodwill are capitalised and amortised over their estimated useful economic lives, up to a maximum of 20 years, in accordance with FRS 10. Prior to 2 May 1999, goodwill was written off to reserves in the year in which it arose. This goodwill will be charged to the profit and loss account as appropriate on the subsequent disposal of the business to which it relates.

### Turnover

Turnover represents total amounts staked by customers on racing activities, gross gaming yield from casino gaming activities and amounts receivable for goods and services provided exclusive of Value Added Tax.

## Accounting Policies continued

### Fixed Assets and Depreciation

The Group's properties are carried at an open market, existing use valuation including the benefit of casino and betting office licences where applicable.

The Group's properties are revalued by professionally qualified external valuers every five years. The last revaluation was at 3 May 1998. Net revaluation surpluses are credited to reserves.

No depreciation is provided on land. Depreciation on other assets is calculated so as to write off the cost or valuation of tangible fixed assets, less their estimated residual values, over the expected useful economic lives of the assets concerned, at the following rates:

Freehold and long leasehold properties	2% per annum on a straightline basis
Short leasehold properties	Over the term of the associated lease on a straightline basis
In view of the high residual values of casino and betting office licences, properties are reviewed annually for potential impairment.	
Leasehold improvements	Over the shorter of the term of the associated lease or 50 years on a straightline basis
Fixtures, fittings and equipment	15-25% per annum on a reducing balance basis
Motor vehicles	25% per annum on a straightline basis

### Listed Investments

Listed investments held for long term strategic purposes are disclosed as fixed asset investments and stated at cost less provision for impairment. Other listed investments are stated at the lower of cost and mid-market value at the balance sheet date.

### Pension Costs

The costs of the Group's defined benefit pension arrangements are charged to the profit and loss account on a systematic basis allowing the expected pension costs to be spread over the remaining service lives of the scheme members, as calculated by a qualified actuary.

The costs of the Group's defined contribution pension arrangements are charged to the profit and loss account on the basis of contributions payable in respect of the accounting period.

### Foreign Currencies

The balance sheets of the overseas undertakings are translated into sterling at the rates ruling at the year end. Translation differences arising on foreign currency loans which finance investments in overseas undertakings are offset against the differences arising on the retranslation at closing rates of the opening net assets of those undertakings and the resulting translation differences are accounted for through reserves.

Revenue items are translated into sterling at the average rates ruling during the year. Differences on exchange arising in the normal course of trading are dealt with in the profit and loss account.

### Stocks

Stocks are stated at the lower of cost and net realisable value.

### Operating Leases

The cost of operating leases is charged to the profit and loss account as incurred.

### Leased Assets

Assets subject to finance leases or hire purchase agreements are shown as fixed assets and depreciated over the asset life. The corresponding liability for the capital element is shown as a finance lease or hire purchase creditor and the interest element is charged to the profit and loss account over the period of the lease or agreement.

### Taxation

Corporation tax is provided on the assessable profits of the Group at the appropriate rates in force.

Provision is made at anticipated future rates in respect of taxation liabilities deferred, to the extent that they are expected to crystallise within the foreseeable future.

### Financial Instruments

The Group uses instruments to hedge the risk associated with interest rates. Interest differentials on financial instruments are recognised by adjusting net interest payable. Gains or losses on the hedges are recognised in the period to which they relate.

Costs of arranging debt finance are amortised over the life of the related borrowing facilities.



## Consolidated Profit and Loss Account

for the year ended 30 April 2000

	notes	Pre goodwill amortisation £'000	Goodwill amortisation £'000	2000 £'000	1999 £'000
Turnover	1				
Continuing operations		502,475	–	502,475	468,470
Acquisitions		68,916	–	68,916	–
		571,391	–	571,391	468,470
Cost of sales	1	(524,872)	–	(524,872)	(439,388)
Gross profit	1	46,519	–	46,519	29,082
Net operating expenses (including exceptional items)		(5,023)	(958)	(5,981)	(3,240)
Operating profit before exceptional items		43,103	(958)	42,145	25,842
Exceptional items	1	(1,607)	–	(1,607)	–
Operating profit	1				
Continuing operations		25,823	–	25,823	25,842
Acquisitions		15,673	(958)	14,715	–
Profit on ordinary activities before interest		41,496	(958)	40,538	25,842
Net interest payable	4	(12,015)	–	(12,015)	(2,356)
Profit on ordinary activities before taxation	1,2	29,481	(958)	28,523	23,486
Taxation on profit on ordinary activities	5	(8,908)	–	(8,908)	(7,223)
Profit on ordinary activities after taxation		20,573	(958)	19,615	16,263
Minority interests		(281)	–	(281)	(59)
Profit for the financial year		20,292	(958)	19,334	16,204
Dividends	6	(6,242)	–	(6,242)	(5,518)
Retained profit for the year	19	14,050	(958)	13,092	10,686
Headline earnings per share before exceptional items and goodwill amortisation	7			19.1p	14.6p
Fully diluted headline earnings per share before exceptional items and goodwill amortisation	7			19.1p	14.5p
Earnings per share	7			17.3p	14.6p
Fully diluted earnings per share	7			17.2p	14.5p

The accounting policies on pages 29 and 30 and the notes on pages 38 to 54 form part of these Financial Statements.

## Balance Sheets

as at 30 April 2000

	notes	Group		Company	
		2000 £'000	1999 £'000	2000 £'000	1999 £'000
Fixed assets					
Intangible assets – Goodwill	8	24,893	–	–	–
Tangible assets	9	426,133	302,038	12,472	8,233
Investments – Capital Corporation PLC	10	–	26,244	–	26,244
– other	11	71	71	152,635	51,134
		451,097	328,353	165,107	85,611
Current assets					
Stocks	12	1,512	717	13	13
Debtors	13	3,742	3,521	105,520	71,939
Investments	11	7	7	5	5
Cash at bank and in hand		7,827	6,724	3	7
		13,088	10,969	105,541	71,964
Creditors					
Amounts falling due within one year	14	(49,895)	(27,182)	(28,491)	(10,314)
Net current assets/(liabilities)		(36,807)	(16,213)	77,050	61,650
Total assets less current liabilities		414,290	312,140	242,157	147,261
Creditors					
Amounts falling due after more than one year	15	(163,643)	(75,701)	(162,690)	(74,626)
Provision for liabilities and charges					
Deferred taxation	17	(2,605)	(2,262)	(496)	(473)
Net assets	1	248,042	234,177	78,971	72,162
Capital and reserves					
Called up share capital	18	28,105	27,851	28,105	27,851
Share premium account	19	16,126	13,869	16,126	13,869
Revaluation reserve	19	96,032	96,032	11	11
Capital reserve	19	5,304	5,304	–	–
Other reserves	19	23,922	23,922	23,668	23,668
Profit and loss account	19	78,398	67,125	11,061	6,763
Equity shareholders' funds		247,887	234,103	78,971	72,162
Minority equity interests		155	74	–	–
Total funds employed		248,042	234,177	78,971	72,162

The accounting policies on pages 29 and 30 and the notes on pages 38 to 54 form part of these Financial Statements.

Approved by the Board on 13 July 2000.

L. Steinberg  
A. M. Riddy

## Statement of Total Recognised Gains and Losses

for the year ended 30 April 2000

	Group		Company	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Profit for the financial year	19,334	16,204	10,651	9,170
Currency translation	(892)	(56)	–	–
<b>Total net gains recognised in the year</b>	<b>18,442</b>	<b>16,148</b>	<b>10,651</b>	<b>9,170</b>

## Reconciliation of Movements in Equity Shareholders' Funds

for the year ended 30 April 2000

	Group		Company	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Profit for the financial year	19,334	16,204	10,651	9,170
Dividends	(6,242)	(5,518)	(6,242)	(5,518)
	13,092	10,686	4,409	3,652
Issue of share capital including share premium	2,511	1,100	2,511	1,100
Contributions in respect of shares issued under				
Qualifying Employee Share Ownership Trust	(927)	–	(111)	–
Currency translation	(892)	(56)	–	–
Net addition to equity shareholders' funds	13,784	11,730	6,809	4,752
Opening equity shareholders' funds	234,103	222,373	72,162	67,410
<b>Closing equity shareholders' funds</b>	<b>247,887</b>	<b>234,103</b>	<b>78,971</b>	<b>72,162</b>

As permitted by section 230(i) Companies Act 1985, the Company has not presented its own profit and loss account. The profit attributable to members dealt with in the accounts of the Company was £10,651,000 (1999 – £9,170,000).

## Historical Cost Profits and Losses

There is no material difference between the reported profit before taxation and the historical cost profit before taxation.

## Consolidated Cash Flow Statement

for the year ended 30 April 2000

	notes	2000 £'000	1999 £'000
Net cash inflow from operating activities	A	45,051	32,046
Dividends received from associates		18	34
Returns on investments and servicing of finance	B	(13,410)	(3,496)
Taxation		(12,346)	(7,139)
Capital expenditure and financial investment	B	(14,657)	(40,716)
Acquisitions	B	(79,657)	(18,954)
Total dividends paid	B	(7,684)	(5,398)
<b>Net cash outflow before use of liquid resources and financing</b>		<b>(82,685)</b>	<b>(43,623)</b>
Financing – issue of ordinary shares		1,206	700
– increase in debt		77,353	39,518
	B	78,559	40,218
<b>Decrease in cash in the year</b>		<b>(4,126)</b>	<b>(3,405)</b>
Reconciliation of net cash flow to movement in net debt			
Decrease in cash in the year		(4,126)	(3,405)
Increase in debt in the year		(75,553)	(39,518)
Increase in net debt resulting from cash flows	C	(79,679)	(42,923)
Loans and hire purchase finance acquired with subsidiaries	C	(23,128)	–
Other non-cash changes	C	(261)	(546)
Currency translation	C	65	5
<b>Increase in net debt in the year</b>		<b>(103,003)</b>	<b>(43,464)</b>
<b>Net debt at start of the year</b>		<b>(70,764)</b>	<b>(27,300)</b>
<b>Net debt at end of the year</b>	C	<b>(173,767)</b>	<b>(70,764)</b>

## Notes to the Consolidated Cash Flow Statement

for the year ended 30 April 2000

	2000	1999
	£'000	£'000
<b>A Reconciliation of operating profit to net cash inflow from operating activities</b>		
Operating profit	40,538	25,842
Depreciation	6,973	4,818
Goodwill amortisation	958	–
Loss on sale of tangible fixed assets	148	90
Provision against carrying value of properties	–	500
(Increase)/decrease in stocks	(35)	74
(Increase)/decrease in debtors	(124)	411
Increase/(decrease) in creditors	(3,389)	345
Income from interests in associated undertakings	(18)	(34)
<b>Net cash inflow from operating activities</b>	<b>45,051</b>	<b>32,046</b>
<b>B Analysis of cash flows for headings netted in the consolidated cash flow statement</b>		
Returns on investments and servicing of finance		
Interest received	254	342
Interest paid	(11,757)	(2,736)
Debt finance costs	(1,800)	(1,012)
Interest element of hire purchase repayments	(107)	(90)
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(13,410)</b>	<b>(3,496)</b>
Capital expenditure and financial investment		
Investment in Capital Corporation PLC	–	(26,244)
Purchase of tangible fixed assets	(15,435)	(14,747)
Sale of tangible fixed assets	778	275
<b>Net cash outflow for capital expenditure and financial investment</b>	<b>(14,657)</b>	<b>(40,716)</b>
Acquisitions		
Purchase of subsidiary undertakings (note D)	(81,618)	(17,120)
Cash/(overdrafts) acquired with subsidiary undertakings (note D)	2,064	(809)
Deferred consideration in respect of prior year acquisitions	(103)	(1,025)
<b>Net cash outflow for acquisitions</b>	<b>(79,657)</b>	<b>(18,954)</b>
Total dividends paid		
Capital Corporation PLC dividends paid (note 25)	(2,033)	–
Equity dividends paid	(5,651)	(5,398)
<b>Total dividends paid</b>	<b>(7,684)</b>	<b>(5,398)</b>
Financing		
Debts due within one year:		
Loans raised	11,250	–
Debts due after more than one year:		
Loans raised	164,250	47,000
Repayment of loans	(97,500)	(7,127)
Capital element of hire purchase repayments	(647)	(355)
Issue of ordinary share capital	1,206	700
<b>Net cash inflow from financing</b>	<b>78,559</b>	<b>40,218</b>

C	Analysis of net debt	1999	Cash flow	Acquisitions (excluding cash and overdrafts)	Other non-cash changes	Currency translation	2000
		£'000	£'000	£'000	£'000	£'000	£'000
	Cash in hand and at bank	6,724	1,144	–	–	(41)	7,827
	Overdrafts	(1,145)	(5,270)	–	–	–	(6,415)
		5,579	(4,126)	–	–	(41)	1,412
	Debts due within one year	(418)	(10,688)	–	(369)	50	(11,425)
	Debts due after more than one year	(74,918)	(65,512)	(23,000)	819	49	(162,562)
	Hire purchase finance	(1,007)	647	(128)	(711)	7	(1,192)
	<b>Total</b>	<b>(70,764)</b>	<b>(79,679)</b>	<b>(23,128)</b>	<b>(261)</b>	<b>65</b>	<b>(173,767)</b>

D	Purchase of subsidiary undertakings	£'000
	Fair value of assets acquired:	
	Tangible fixed assets	115,349
	Stocks	778
	Debtors	1,101
	Cash at bank and in hand	2,704
	Bank overdrafts	(640)
	Creditors	(7,214)
	Proposed dividend	(2,033)
	Corporation tax	(4,213)
	Bank loans and hire purchase finance	(23,128)
	Deferred taxation	(15)
	<b>Total</b>	<b>82,689</b>
	Satisfied by:	
	Issue of ordinary share capital	378
	Investment in Capital Corporation PLC at 2 May 1999	26,244
	Cash	81,618
	Deferred consideration	300
	<b>Total</b>	<b>108,540</b>
	<b>Goodwill</b>	<b>25,851</b>

## Notes to the Financial Statements

1 Segmental information	Continuing	Acquisitions	Year to	Year to
	operations		30 April 2000	2 May 1999
	£'000	£'000	£'000	£'000
Turnover				
Betting division	449,984	3,348	453,332	417,338
Gaming division	52,327	65,568	117,895	50,933
Other activities	164	–	164	199
Total	502,475	68,916	571,391	468,470
Cost of sales	(473,694)	(51,178)	(524,872)	(439,388)
Gross profit	28,781	17,738	46,519	29,082
Net operating expenses				
Administration expenses	(3,743)	(518)	(4,261)	(3,252)
Administration expenses – exceptional reorganisation costs	–	(1,607)	(1,607)	–
Administration expenses – provision against carrying value of properties	–	–	–	(500)
Other operating income	968	6	974	567
Income from interests in associated undertakings	18	–	18	34
Income from listed investments	1	–	1	1
Profit/(loss) on sale of tangible fixed assets	(202)	54	(148)	(90)
Net operating expenses (including exceptional items) pre goodwill amortisation	(2,958)	(2,065)	(5,023)	(3,240)
Administration expenses – goodwill amortisation	–	(958)	(958)	–
Net operating expenses	(2,958)	(3,023)	(5,981)	(3,240)
Operating profit	25,823	14,715	40,538	25,842
Total administration expenses amount to £6,826,000 (1999 – £3,752,000).				
Analysis of profit on ordinary activities before taxation				
Betting division	18,381	327	18,708	17,242
Gaming division	11,182	14,388	25,570	11,446
Other activities	(3,740)	–	(3,740)	(2,846)
	25,823	14,715	40,538	25,842
Net interest payable			(12,015)	(2,356)
Total			28,523	23,486
Net assets				
Betting division			175,037	131,626
Gaming division			209,578	101,540
Other activities			(136,573)	1,011
			248,042	234,177

Substantially all of the Group's turnover and profit on ordinary activities before taxation arises within the U.K., Republic of Ireland and Jersey.

Other activities comprise central costs.

		2000	1999
<b>2</b>	<b>Profit on ordinary activities before taxation</b>	£'000	£'000

Profit on ordinary activities before taxation is stated after charging/(crediting) the following:

Betting tax, betting levy and gaming duty	55,198	32,952
Depreciation (including £406,000 in respect of leased assets [1999 – £359,000])	6,973	4,818
Goodwill amortisation	958	–
Auditors' remuneration	110	100
Operating lease rentals – land and buildings	5,816	4,033
– plant and machinery	2,375	2,263
Exceptional reorganisation costs	1,607	–
Rents receivable	(639)	(548)

Depreciation includes £711,000 (1999 – £Nil) in respect of properties.

Fees payable to the auditors in the U.K. for non-audit services in 2000 were £435,000 (1999 – £145,000). Fees payable by the Company for auditors' remuneration were £15,000 (1999 – £15,000). All non-audit fees were incurred by the Company.

Exceptional reorganisation costs relate to the integration of Capital Corporation PLC into the Group together with associated restructuring costs.

		2000	1999
<b>3</b>	<b>Employees and staff costs</b>		

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

Betting division	2,914	2,716
Gaming division	2,794	2,068
Other activities	59	57
	5,767	4,841

		2000	1999
		£'000	£'000

Employee costs including Directors were as follows:

Wages and salaries	65,905	46,233
Social security costs	5,328	3,733
Other pension costs	1,629	1,037
	72,862	51,003

## Notes to the Financial Statements (continued)

	2000	1999
	£'000	£'000
<b>4 Net interest payable</b>		
Interest payable:		
Bank loans, overdrafts and other loans wholly repayable within five years	11,608	2,650
Amortisation of debt finance costs	562	–
Hire purchase	107	90
Interest receivable:		
Short term deposits	(248)	(377)
Other	(14)	(7)
	12,015	2,356
<b>5 Taxation on profit on ordinary activities</b>		
U.K. corporation tax:		
Current tax at 30.0% (1999 – 30.9%) on profit for the year	8,084	6,551
Adjustment in respect of prior years	(50)	(124)
U.K. deferred taxation (note 17)	325	306
	8,359	6,733
Foreign tax:		
Non-U.K. corporation tax payable at various rates	540	498
Adjustment in respect of prior years	–	(18)
Non-U.K. deferred taxation (note 17)	9	10
	8,908	7,223
<b>6 Dividends</b>		
Interim dividend of 1.75p per share paid on 21 February 2000 (1999 – 1.65p)	1,972	1,837
Proposed final dividend of 3.8p per share payable on 18 September 2000 (1999 – 3.3p)	4,270	3,681
	6,242	5,518

The proposed final dividend of £4,270,000 is calculated on 112,423,974 Ordinary Shares in issue at 11 July 2000 and ranking for dividend.

## 7 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. The weighted average number of shares in issue is adjusted to assume the exercise of all options over shares to calculate diluted earnings per share.

Headline earnings per share have also been calculated before goodwill amortisation and exceptional items as these can give a distorting effect on profits. Their exclusion is considered to give a better understanding of the Group's earnings.

	Earnings	Earnings per share	
	2000 £'000	Basic p	Diluted p
Profit for the financial year	19,334	17.26	17.22
Add back:			
Exceptional items (net of tax relief)	1,125	1.00	1.00
Goodwill amortisation	958	0.86	0.85
Adjusted profit	21,417	19.12	19.07
		2000	1999
		000	000
Weighted average number of shares:			
Basic		112,022	111,279
Dilution adjustment for share options		279	846
Diluted		112,301	112,125
		Cost	Amortisation
		£'000	£'000
			Net book amount
			£'000
New businesses acquired	25,851	(958)	24,893
At 30 April 2000	25,851	(958)	24,893

## 8 Intangible assets – Goodwill

Intangible assets consists of goodwill arising on acquisitions since 2 May 1999. Goodwill is being amortised over estimated useful economic lives of 10 – 20 years. Details of the acquisitions are set out in note 25.

## Notes to the Financial Statements (continued)

9 Tangible assets	Properties			Leasehold improvements	Fixtures, fittings and equipment	Motor vehicles	Total
	Freehold	Long lease	Short lease				
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Group							
Cost or valuation							
At 2 May 1999	116,152	20,548	132,688	7,739	52,738	1,642	331,507
Additions	5,099	51	1,118	660	9,968	785	17,681
Acquisitions	70,261	240	42,380	–	2,077	391	115,349
Disposals	(136)	(117)	–	(95)	(622)	(662)	(1,632)
Currency translation	(201)	(129)	(517)	(75)	(240)	(8)	(1,170)
Reclassifications	1,476	243	(1,719)	–	–	–	–
At 30 April 2000	192,651	20,836	173,950	8,229	63,921	2,148	461,735
At cost	83,433	1,422	58,624	8,229	63,921	2,148	217,777
At valuation	109,218	19,414	115,326	–	–	–	243,958
Depreciation							
At 2 May 1999	1,000	–	–	2,775	25,180	514	29,469
Charge for the year	508	44	159	357	5,281	624	6,973
Disposals	(1)	(3)	–	(28)	(222)	(452)	(706)
Currency translation	(1)	–	(1)	(16)	(113)	(3)	(134)
At 30 April 2000	1,506	41	158	3,088	30,126	683	35,602
Net book amount							
At 30 April 2000	191,145	20,795	173,792	5,141	33,795	1,465	426,133
At 2 May 1999	115,152	20,548	132,688	4,964	27,558	1,128	302,038

Amounts in respect of motor vehicles include assets at a cost of £1,778,000 (1999 – £1,540,000) and accumulated depreciation of £502,000 (1999 – £489,000) for vehicles held under hire purchase agreements.

The Group's properties were revalued by Dunlop Heywood, Consultant Surveyors, at 3 May 1998, in accordance with the RICS Appraisal and Valuation Manual, on an open market value and fully operational basis for their existing use, including the benefit of casino and betting office licences.

	2000	1999
	£'000	£'000
If stated under historical cost principles, the comparable amounts for all properties would be as follows:		
Cost of properties and associated licences	291,539	173,490
Aggregate depreciation	(1,839)	(1,134)
	289,700	172,356

## 9 Tangible assets (continued)

	Freehold property £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
Company				
Cost or valuation				
At 2 May 1999	1,534	13,532	369	15,435
Additions	2,014	3,926	80	6,020
Disposals	–	(12)	–	(12)
<b>At 30 April 2000</b>	<b>3,548</b>	<b>17,446</b>	<b>449</b>	<b>21,443</b>
At cost	3,027	17,446	449	20,922
At valuation	521	–	–	521
Depreciation				
At 2 May 1999	–	7,104	98	7,202
Charge for the year	63	1,622	95	1,780
Disposals	–	(11)	–	(11)
<b>At 30 April 2000</b>	<b>63</b>	<b>8,715</b>	<b>193</b>	<b>8,971</b>
Net book amount				
At 30 April 2000	3,485	8,731	256	12,472
At 2 May 1999	1,534	6,428	271	8,233

The net book amount for motor vehicles includes £203,000 (1999 – £192,000) in respect of vehicles under hire purchase agreements.

	2000 £'000	1999 £'000

If stated under historical cost principles, the comparable amounts for properties would be as follows:

Cost of properties	3,537	1,523
Aggregate depreciation	(63)	–
	<b>3,474</b>	<b>1,523</b>

## 10 Investments – Capital Corporation PLC

On 30 March 1999, the Company made an offer to acquire the whole of the issued equity share capital of Capital Corporation PLC, a company listed on the London Stock Exchange, at 85p per share payable in cash or 28.24 ordinary shares in the Company in exchange for every 100 ordinary shares in Capital Corporation PLC. During March and April 1999, the Company purchased approximately 29.97% of the issued equity share capital of Capital Corporation PLC at a cost, inclusive of stamp duty and expenses, of £26,244,000. The offer was declared unconditional on 19 May 1999, from which date Capital Corporation PLC has been treated as a subsidiary. Details of the acquisition are set out in note 25.

## Notes to the Financial Statements (continued)

	Group		Company			
	Associated undertakings	Listed investments – current	Associated undertakings	Shares in subsidiary undertakings	Total	Listed investments – current
	£'000	£'000	£'000	£'000	£'000	£'000
<b>11 Investments – other</b>						
At 2 May 1999	71	7	71	51,063	51,134	5
Acquisition of subsidiaries in the year	–	–	–	101,501	101,501	–
Dividends received	(18)	–	(18)	–	(18)	–
Retained profit for the year	18	–	18	–	18	–
At 30 April 2000	71	7	71	152,564	152,635	5

The Company holds 35% of the issued share capital of L Stanley (Bermuda) Limited, a company engaged in the running of a weekly fixed odds coupon, incorporated in Bermuda. The interest in this undertaking comprises 4,200 shares of \$1 at cost plus the share of undistributed profits since incorporation.

### Shares in subsidiary undertakings

The following principal trading subsidiaries were wholly owned either directly or indirectly by the Company at 30 April 2000 and are included within the consolidated Financial Statements for the year then ended.

Directly owned	Activity	Country of incorporation and operation
Stanley Racing Limited	Licensed betting offices	England
L Stanley Limited	Licensed betting offices	Northern Ireland
B J O'Connor Limited	Licensed betting offices	Jersey
Indirectly owned	Activity	Country of incorporation and operation
Stanley Casinos Limited	Casino operator	England
Crockfords Club Limited	Casino operator	England
The Colony Club Limited	Casino operator	England
Cromwell Sporting Enterprises Limited	Casino operator	England
L Stanley (Isle of Man) Limited	Licensed betting offices	Isle of Man
Stanley Racing (Ireland) Limited	Licensed betting offices	Republic of Ireland

The Company has a 50% holding in the ordinary share capital of Stanley International Betting Limited, a U.K. company engaged in the acceptance of bets from Europe, principally Italy. Stanley International Betting Limited is accounted for as a subsidiary because of the dominant influence of the Company over its operation.

12 Stocks	Group		Company	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Consumables	768	361	13	13
Goods for resale	744	356	–	–
	1,512	717	13	13

13 Debtors	Group		Company	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Trade debtors	484	104	–	–
Amounts due from subsidiary undertakings	–	–	104,572	69,539
Other debtors	606	46	–	–
Prepayments and accrued income	2,652	3,371	948	2,400
	3,742	3,521	105,520	71,939

At 2 May 1999, prepayments included £1,012,000 in respect of debt finance costs which, in accordance with FRS 4, are amortised over the term of the loan facility. At 30 April 2000, these debt finance costs have been deducted from the bank loans in respect of which they were incurred.

14 Creditors – amounts falling due within one year	Group		Company	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Bank overdrafts	6,415	1,145	175	1,277
Bank loans	11,425	418	10,688	–
Trade creditors	3,900	2,751	1,880	816
Amounts due to subsidiary undertakings	–	–	10,268	3,509
Hire purchase creditors	481	494	81	57
Taxation and social security	13,575	10,726	64	51
Accruals and deferred income	9,829	7,967	1,065	923
Proposed dividend	4,270	3,681	4,270	3,681
	49,895	27,182	28,491	10,314

15 Creditors – amounts falling due after more than one year	Group		Company	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Bank loans repayable in between one and two years	15,187	418	15,187	–
Bank loans repayable in between two and five years	147,375	74,500	147,375	74,500
Hire purchase creditors repayable in between one and two years	383	257	35	36
Hire purchase creditors repayable in between two and five years	328	256	93	90
Taxation	270	270	–	–
Other creditors	100	–	–	–
	163,643	75,701	162,690	74,626

## Notes to the Financial Statements (continued)

### 16 Financial instruments

Financial assets	Financial assets on		Total		
	Floating rate financial assets	which no interest is received			
2000	£'000	£'000	£'000		
Currency					
Sterling	2,753	4,313	7,066		
Euro currencies	640	121	761		
	3,393	4,434	7,827		
<hr/>					
1999					
Currency					
Sterling	2,706	3,665	6,371		
Euro currencies	143	210	353		
	2,849	3,875	6,724		
<hr/>					
Financial liabilities	Fixed rate financial liabilities			Floating rate financial liabilities	Total
	Weighted average interest rate %	Number of years for which rate is fixed	Amount		
2000	interest rate %	is fixed	£'000	£'000	£'000
Currency					
Sterling	5.9	3.1	74,160	108,915	183,075
Euro currencies	10.0	1.5	32	737	769
			74,192	109,652	183,844
<hr/>					
1999					
Currency					
Sterling	6.4	3.6	15,943	60,645	76,588
Euro currencies	10.0	1.5	64	836	900
			16,007	61,481	77,488

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

## 16 Financial instruments (continued)

Maturity profile	Within	Between	Between	Total
	one year	one and two years	two and five years	
2000	£'000	£'000	£'000	£'000
Sterling overdrafts	6,415	–	–	6,415
Sterling bank loans	11,250	15,750	148,500	175,500
Euro currency bank loans	737	–	–	737
Sterling hire purchase	459	373	328	1,160
Euro currency hire purchase	22	10	–	32
	18,883	16,133	148,828	183,844
Debt finance costs	(562)	(563)	(1,125)	(2,250)
	18,321	15,570	147,703	181,594
1999	£'000	£'000	£'000	£'000
Sterling overdrafts	1,145	–	–	1,145
Sterling bank loans	–	–	74,500	74,500
Euro currency bank loans	418	418	–	836
Sterling hire purchase	459	228	256	943
Euro currency hire purchase	35	29	–	64
	2,057	675	74,756	77,488

## Unsecured borrowing facilities

The Group has £6,234,000 (1999 – £10,275,000) committed borrowing facilities which are subject to annual renewal and bear interest at floating rates.

The Group has a five year revolving credit and term loan facility dated 30 March 1999. This facility comprises a revolving credit facility of £125,000,000 and a term loan of £90,000,000 both of which bear interest at floating rates of between 0.7% and 1.5% above LIBOR.

A description of the Group's treasury policy is given within the Finance Director's Review on page 16. Also included in this review are details of the interest rate instruments in place at 30 April 2000 and entered into since that date.

## Fair values

There were no significant differences between book amounts and fair values of any of the Group's financial assets and liabilities except for interest rate swaps, the fair value of which was £578,000.

## Notes to the Financial Statements (continued)

	Group		Company	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
<b>17 Provision for liabilities and charges</b>				
Deferred taxation liability:				
Accelerated capital allowances	2,605	2,262	496	473

The full potential liability to deferred taxation in respect of accelerated capital allowances for the Group is £2,929,000 (1999 – £2,565,000) and for the Company £535,000 (1999 – £513,000).

No provision is made for taxation in respect of liabilities which might arise on the distribution of earnings retained overseas, because the availability of double tax relief will ensure that no significant U.K. tax will be payable on any earnings intended to be remitted to the U.K. in the foreseeable future. No provision has been made for potential Group capital gains tax payable of £19,000,000 (1999 – £19,000,000) if properties were to be sold at their revalued amounts as there is no intention to dispose of the properties in the foreseeable future.

	Group	Company
	£'000	£'000
The movements on the deferred taxation provision during the year were as follows:		
At 2 May 1999	2,262	473
Charge for the year	334	23
Acquisitions	15	–
Currency translation	(6)	–
At 30 April 2000	2,605	496

	Group and Company	
	2000	1999
	£'000	£'000
<b>18 Share capital</b>		

Authorised:		
160 million (1999 – 160 million) ordinary shares of 25p each	40,000	40,000
Allotted, issued and fully paid:		
At 2 May 1999 – 111,401,786 shares of 25p each	27,851	27,714
Issues in respect of acquisitions (146,650)	37	34
SAYE and Executive share options (870,358)	217	103
At 30 April 2000 – 112,418,794 shares of 25p each	28,105	27,851

The associated premiums on the share issues in the year have been taken to the share premium account (note 19).

## 18 Share capital (continued)

### Share Options

At 30 April 2000, options were held by employees in respect of 4,768,784 ordinary shares of 25p analysed as follows:

	Number of shares	Option price per share p	Exercisable
The Stanley Leisure plc 1986 Inland Revenue Approved Executive Share Option Scheme	7,182 415,000	95.05 190.50	25.02.1996 – 25.02.2003 27.02.1998 – 27.02.2005
The Stanley Leisure plc 1996 Inland Revenue Approved Executive Share Option Scheme	681,000 17,000 9,850 2,300 11,800 2,150 7,150 25,694	257.50 295.00 303.50 291.50 252.50 270.00 271.00 233.50	19.02.2001 – 19.02.2008 03.06.2001 – 03.06.2008 15.09.2001 – 15.09.2008 01.10.2001 – 01.10.2008 04.05.2002 – 04.05.2009 14.07.2002 – 14.07.2009 16.09.2002 – 16.09.2009 04.11.2002 – 04.11.2009
The Stanley Leisure plc 1999 Executive Share Option Scheme	88,200 57,456	252.50 233.50	04.05.2002 – 04.05.2009 04.11.2002 – 04.11.2009
The Stanley Leisure plc 1996 Inland Revenue Approved Savings Related Share Option Scheme	182,609 336,422 1,193,804 1,646,592	239.00 239.00 164.00 164.00	21.02.2000 – 21.08.2000 21.02.2002 – 21.08.2002 24.02.2003 – 24.08.2003 24.02.2005 – 24.08.2005
The Stanley Leisure plc Overseas Savings Related Share Option Scheme	10,399 26,220 18,989 28,967	239.00 239.00 164.00 164.00	21.02.2000 – 21.08.2000 21.02.2002 – 21.08.2002 24.02.2003 – 24.08.2003 24.02.2005 – 24.08.2005
<b>Total options held</b>	<b>4,768,784</b>		

## Notes to the Financial Statements (continued)

19 Reserves	Share premium account	Revaluation reserve	Capital reserve	Other reserve	Profit and loss account
<b>Group</b>					
At 2 May 1999	13,869	96,032	5,304	23,922	67,125
Acquisitions	341	–	–	–	–
SAYE and Executive share options	1,916	–	–	–	(927)
Currency translation	–	–	–	–	(892)
Retained profit	–	–	–	–	13,092
<b>At 30 April 2000</b>	<b>16,126</b>	<b>96,032</b>	<b>5,304</b>	<b>23,922</b>	<b>78,398</b>
<b>Company</b>					
At 2 May 1999	13,869	11	–	23,668	6,763
Acquisitions	341	–	–	–	–
SAYE and Executive share options	1,916	–	–	–	(111)
Retained profit	–	–	–	–	4,409
<b>At 30 April 2000</b>	<b>16,126</b>	<b>11</b>	<b>–</b>	<b>23,668</b>	<b>11,061</b>

In September 1999, the Company established a Qualifying Employee Share Ownership Trust (the "QUEST") in order to distribute ordinary shares in the Company on the exercise of options under the Stanley Leisure plc 1996 Inland Revenue Approved Savings Related Share Option Scheme. The trustee of the QUEST is a subsidiary of the Company. All employees of Group companies, including Directors of the Company, are potential beneficiaries under the QUEST. At 30 April 2000, the QUEST held no shares in the Company.

During the year the Group contributed £927,000, of which the Company contributed £111,000, to the QUEST.

Goodwill in aggregate of £625,000 (1999 – £625,000) has been charged against other reserves in respect of years prior to 2 May 1999. £595,000 of translation differences on foreign currency loans (1999 – £25,000) have been offset against the translation differences on the net investment in overseas undertakings.

The Company has not disclosed details of transactions with other Group companies as permitted by FRS 8.

## 20 Capital commitments

Capital expenditure contracted for but not provided in the accounts at 30 April 2000 amounted to £9,715,000 (1999 – £2,032,000).

## 21 Operating lease commitments

The Group has short term operating lease commitments in respect of plant and machinery, all of which terminate within one year. The rentals payable under the leases in the next year are £2,275,000 (1999 – £2,163,000).

The Group has operating lease commitments in respect of certain land and buildings on short and long term leases. The rentals payable under the leases in the next year are as follows:-

	2000 £'000	1999 £'000
On leases terminating:		
Within one year	386	399
Between two and five years	783	584
After five years	4,801	3,233
	5,970	4,216

## 22 Pension commitments

The Group currently operates three principal pension schemes for employees other than the Directors of the Company; two defined contribution schemes and one funded defined benefit scheme. The assets of all three schemes are held separately from those of the Group. In respect of the defined contribution schemes, the pension cost charge represents contributions payable by the Group to the schemes and amounted to £778,000 (1999 – £285,000). The increase in contributions is attributable to additional employees joining the schemes and acquisitions during the year.

The defined benefit scheme (the Stanley Leisure 1988 Retirement Benefits Scheme) provides benefits based on final pensionable earnings. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the Group. The contributions are determined by a qualified independent actuary on the basis of triennial valuations using the attained age valuation method. The pension cost charge in respect of the Group for the defined benefit scheme was £447,000 (1999 – £361,000).

The most recent valuation was at 1 May 1998. The valuation showed that the market value of the scheme's assets was £4,390,000 and the actuarial value of these assets represented 130% of the benefits which had accrued to members, after allowing for expected future increases in earnings.

The assumptions which affect the results of the valuation include an assumed rate of future pension increases of 5.0% or R.P.I and a yield gap between the investment return and the increase in pensionable earnings of 1.5%.

## 23 Contingent liability

At 30 April 2000, the Group had given guarantees to a third party in respect of L Stanley (Cyprus) Limited and Stanley Racing (Cyprus) Limited amounting to CYP £790,000 (equivalent to £898,000); these guarantees were released on 3 May 2000.

## 24 Post balance sheet events

On 22 May 2000 Stanley Racing Limited acquired the whole of the issued share capital of the Regency Bookmakers Group, which operates licensed betting offices in the Midlands, for a total consideration of £6,950,000, comprising £4,820,000 in cash and £2,130,000 in loan notes.

On 30 June 2000 Stanley Casinos Limited acquired the whole of the issued share capital of Incomeactual Limited, which operates King's Casino in Great Yarmouth, for a total consideration of £2,900,000 in cash.

## Notes to the Financial Statements (continued)

25 Acquisitions	Book value	Fair value	Provisional
	on acquisition	adjustments	fair value
	£'000	£'000	to Group
			£'000
Capital Corporation PLC, which operates casinos in Central London, was acquired on 19 May 1999 and accounted for as an acquisition in the following manner:			
Tangible fixed assets	104,030	(293)	103,737
Stocks	778	–	778
Debtors	937	42	979
Cash at bank and in hand	2,254	–	2,254
Bank overdrafts	(584)	–	(584)
Creditors	(5,597)	(1,110)	(6,707)
Proposed dividend	(2,033)	–	(2,033)
Corporation tax	(3,996)	–	(3,996)
Bank loans and hire purchase finance	(23,128)	–	(23,128)
	72,661	(1,361)	71,300
Goodwill			17,700
			89,000
Cash			62,378
Issue of ordinary share capital			378
Investment at 2 May 1999			26,244
Consideration (including expenses of £2,026,000)			89,000

The principal fair value adjustments relate to the revaluation of financial instruments, accruals for employee costs and other unrecognised liabilities, together with the revaluation of tangible fixed assets.

The summarised consolidated profit and loss accounts of Capital Corporation PLC for the periods immediately prior to its acquisition by the Group on 19 May 1999 are:

	Period ended	52 weeks ended
	18 May 1999	27 December 1998
	£'000	£'000
Turnover	24,585	54,330
Operating profit before exceptional items	4,649	6,044
Exceptional items – provision against carrying value of property	–	(2,500)
– bid defence costs	(1,130)	–
Profit before taxation	3,519	3,544
Taxation	(1,488)	(1,873)
Profit after taxation	2,031	1,671

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

During the year, Capital Corporation PLC contributed £13,046,000 to the Group's operating cash flow, earned £37,000 in respect of net returns on investments and servicing of finance, paid £3,238,000 in respect of taxation and paid dividends of £2,033,000. The Group discharged £23,000,000 of bank loans acquired with Capital Corporation PLC.

## 25 Acquisitions (continued)

	Book value on acquisition £'000	Fair value adjustments £'000	Provisional fair value to Group £'000
Annabel's Casino Limited, Bimbo Restaurants Limited and Lilland Limited, which operate casinos in the Midlands, were acquired on 11 October 1999 and accounted for as an acquisition in the following manner:			
Tangible fixed assets	2,761	4,400	7,161
Debtors	55	(15)	40
Cash at bank and in hand	373	–	373
Creditors	(413)	–	(413)
Corporation tax	(191)	–	(191)
Deferred taxation	(10)	–	(10)
	2,575	4,385	6,960
Cash cost of acquisition			6,960

Prior to acquisition, the profit of the companies before taxation, for the eight and a half months ended 10 October 1999, was £502,000 (profit of £639,000 for the year ended 31 January 1999).

	Book value on acquisition £'000	Fair value adjustments £'000	Provisional fair value to Group £'000
On 10 March 2000, the following trading assets and liabilities were purchased from Internet Telemarketing Holdings Limited, which operated internet casinos, and were accounted for as an acquisition in the following manner:			
Tangible fixed assets	103	–	103
Debtors	8	–	8
Creditors	(35)	–	(35)
	76	–	76
Goodwill			8,151
			8,227
Cash cost of acquisition			8,227

As only certain of the trading assets and liabilities were acquired from Internet Telemarketing Holdings Limited it is not practicable to ascertain the profit attributable to this business prior to acquisition.

## Notes to the Financial Statements (continued)

25 Acquisitions (continued)	Book value	Fair value	Provisional
	on acquisition	adjustments	fair value
	£'000	£'000	to Group
			£'000

Other acquisitions comprise the purchase of a number of companies which operated licensed betting shops together with the purchase of a number of licensed betting shops in the U.K., which were accounted for as acquisitions in the following manner:

Tangible fixed assets	2,777	1,571	4,348
Debtors	86	(12)	74
Cash at bank and in hand	77	–	77
Overdrafts	(56)	–	(56)
Other creditors	(85)	–	(85)
Deferred taxation	(5)	–	(5)

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2,794      1,559      4,353

Cash			4,053
Deferred consideration			300

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Cash cost of acquisition 4,353

The deferred consideration comprises £100,000 dependent upon trading performance and £200,000 payable in instalments over two years.

The fair value adjustments arising on all the above acquisitions, excluding Capital Corporation PLC, principally comprise fair values provisionally attributed to licences, awaiting final determination. The businesses acquired during the year, excluding Capital Corporation PLC, generated approximately £852,000 of the Group's net cash inflow from operating activities in the period since their acquisition.

	Capital	Annabel's	Internet	Other	Total
	Corporation		casinos		
	£'000	£'000	£'000	£'000	£'000

The cash impact of acquisitions is as follows:

Cash at bank and in hand	2,254	373	–	77	2,704
Bank overdrafts	(584)	–	–	(56)	(640)
	1,670	373	–	21	2,064
Cash consideration	62,378	6,960	8,227	4,053	81,618
Cash cost of acquisitions					79,554

## Five Year Financial Summary

	1996	1997	1998	1999	2000
	£'000	£'000	£'000	£'000	£'000
Turnover	318,149	406,795	454,904	468,470	571,391
Operating profit before exceptional items and goodwill amortisation	16,186	22,066	26,401	25,842	43,103
Exceptional items	–	(661)	–	–	(1,607)
Goodwill amortisation	–	–	–	–	(958)
Profit on ordinary activities before interest	16,186	21,405	26,401	25,842	40,538
Interest	(1,433)	(1,963)	(2,466)	(2,356)	(12,015)
Profit on ordinary activities before taxation	14,753	19,442	23,935	23,486	28,523
Taxation	(4,740)	(6,651)	(7,531)	(7,223)	(8,908)
Profit after taxation	10,013	12,791	16,404	16,263	19,615
Minority interests	–	–	5	(59)	(281)
Dividends	(3,636)	(4,413)	(5,108)	(5,518)	(6,242)
Retained profit for the year	6,377	8,378	11,301	10,686	13,092
Headline earnings per share before exceptional items and goodwill amortisation	9.3p	12.3p	14.8p	14.6p	19.1p
Basic earnings per share	9.3p	11.7p	14.8p	14.6p	17.3p

Where applicable the above figures have been restated for bonus issues.

## Financial Calendar

2000

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Annual General Meeting	13 September
Final dividend payment	18 September

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2001

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Interim Report	January
Interim dividend payment	February
Preliminary announcement of results	July

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## Advisers

### Registrars

Capita IRG Plc  
Bourne House, 34 Beckenham Road  
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### Principal bankers

The Royal Bank of Scotland plc  
1 Exchange Flags  
Liverpool L2 3XN

National Westminster Bank PLC  
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Barclays Bank PLC  
Birmingham Corporate Banking Centre  
15 Colmore Row, Birmingham B3 2EP

Northern Bank Limited  
Corporate Banking Centre  
14 Howard Street, Belfast BT2 7EB

Bank of Ireland  
Head Office, Lower Baggot Street, Dublin 2

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Chartered Accountants  
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Lower Mosley Street, Manchester M2 3PW

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### Solicitors

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Company Secretary and Registered Office  
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