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ukbetting plc

Interim Results

Moving towards monthly EBITDA profitability and the successful launch of other gaming products

ukbetting plc (LSE: UKB) today announces its results for the six months to 30 June 2003.

Highlights

Financial

(All comparisons are with H1 2002)

- Group turnover of £27.6 million, up 103% from £13.6 million
 - Gaming turnover rose 84% to £24.1 million (H1 2002: £13.1 million)
 - Content division contributed £3.5 million
 - Advertising turnover rose from £402,000 to £686,000
- Gross profit of £3.8 million (H1 2002: £724,000)
- EBITDA losses of £1.6 million are flat half on half
- Losses before tax of £2.9 million, improved from £3.1 million
- Successful placing of £4.3 million strengthened the balance sheet and helped fund the launch of new gaming products

Operations

- Gaming customer numbers rose to 154,678 from 133,000 at 31 Dec 2002 (up from 84,105 at 30 June 2002)
- 3.5 million average core monthly unique users, with 110 million average monthly page impressions on the sports content sites
- Successful launch of call centre
- Secured exclusive premium telephone rights for Attheraces commentaries
- Launch of betting products on four major mobile networks

Post Period End activity

- Successful launch of new casino and poker products
 - Gross win margin improved to 7.3%
- Key appointments to boost sports betting and new product operations
 - Trevor Beaumont, formerly Racing and Trading Director of Corals and Managing Director of Eurobet joins the Main Board as Managing Director of Betting
 - Alex Holt, formerly William Hill's Marketing Manager for Casino and Poker

Peter Dubens, Executive Vice-Chairman, commented:

“The first half has been about driving the business forward after a period of significant acquisition activity. The businesses are fully integrated and our new online gaming products are performing well. With two senior appointees now addressing our fixed odds betting margins and new gaming products, the second half will be about achieving further turnover growth and improving margins.”

Eric Semel, Chief Executive Officer, added:

“The growth in gaming customers and content revenues demonstrates the benefits of our business model. The early success of the casino and poker products, together with the appointment of Trevor Beaumont and Alex Holt, will improve margins, moving the group towards EBITDA profitability.”

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Chairman's Statement

The first half of 2003 has endorsed last year's acquisition strategy with turnover increasing across all areas of the business, demonstrating the benefits of the integrated sports content and betting business model. Both the content and betting divisions have made marked gains in turnover, up 103% to £27.6 million from £13.6 million in the corresponding period last year, with gross profits up from £724,000 to £3.8 million. The EBITDA loss for the period remained at £1.6 million.

The content division, driven by healthy advertising revenues and the benefit of content sales acquired as part of the TEAMtalk acquisition, saw revenue rise from £402,000 in the first half last year to £3.5 million. The sportinglife.com and teamtalk.com sports sites now attract over 3.45 million users a month (up from 1.27 million a year ago) and continue to drive customers to totalbet.com and ukbetting.com where the betting customer base has increased from 84,000 at the end of June 2002, to 154,678 in June this year.

The betting division saw an encouraging increase in turnover from £13.1 million to £24.1 million (up 84% over the corresponding period last year) with gross win margin improving marginally from 3.8% to 3.9%. However the gross win margin remains below industry levels. Trevor Beaumont, previously Racing and Trading Director of Corals and Managing Director of Eurobet, has been appointed to improve performance in fixed odds margins.

Encouragingly the introduction of new gaming products such as casino and poker, launched at the end of the period, have helped increase gross win margin in July 2003 and August 2003 to 7.3%. Their contribution will be further boosted by the recent appointment of Alex Holt. He joins us, to manage the promotion of the new gaming products, from William Hill, where he was Marketing Manager for Casino and Poker.

The first half has been about driving the business forward after a period of significant acquisition activity. The businesses are fully integrated and our new online gaming products are performing extremely well. With two senior appointees now addressing our fixed odds betting margins and new gaming products, the second half will be about achieving further turnover growth and improving margins.

Sir David Sieff
Non-Executive Chairman
23 September 2003

Chief Executive Officer's Review

Financial overview

Group turnover in the period was £27.6 million (H1 2002: £17.5 million including ukbetting's share of turnover derived from Totalbet, which amounted to £3.9 million) generating gross profits of £3.8 million (H1 2002: £724,000). Gross margins for the Group were 13.7% (H1 2002: 5.3%).

EBITDA losses in the six months were £1.6 million (H1 2002: EBITDA losses of £1.6 million). Total operating losses were reduced to £2.9 million (H1 2002: operating losses £3.1 million). The reported loss per share narrowed to 5.96p, basic and diluted, (H1 2002: loss per share of 7.04p, basic and diluted); or 5.02p, before goodwill amortisation, (H1 2002: loss per share of 5.96p).

In March 2003 the final integration of the TEAMtalk acquisition took place and this resulted in redundancy costs of £281,000. In January 2003 the Group successfully disposed of the surplus broadcasting assets from TEAMtalk 252 resulting in a net cash inflow of £312,000.

During the first half the Group successfully placed £4.3 million (£4.1 million net of costs) of new shares. This cash was utilised in the reduction of debt by £2 million and provided further working capital. The operating activities used £2.5 million resulting in a reduction in cash balances of £0.4 million. Net debt was reduced by £1.6 million to £386,000, from £2 million of net debt at 31 December 2002.

Operational overview

As a result of the acquisition synergies, combined with organic growth, turnover increased across all areas of the business, with betting turnover almost doubling from £13.1 million in the corresponding period last year, to £24.1 million. Content revenue moved sharply ahead to £3.5 million from the previous year's £402,000 benefiting from additional revenue streams, including premium telephone sales and an improved performance in advertising and sponsorship which increased some 71% over the corresponding period in 2002.

Gaming Division

The customer base increased to 154,678 at the end of June 2003, a growth of 116 new customers a day. The active customer base during that six month period was 30,354, up from 20,929 in the corresponding period last year with an average of 11,092 betting each month. Average spend remained healthy at £363 per customer per month with an average bet size of £25.72.

Fixed odds margin remained disappointing not helped by a difficult Cheltenham Festival. However, at gross win level the division showed a minor improvement over the same period last year to 3.9% from 3.8%. The Board is confident that further improvement is possible and in this respect Trevor Beaumont, who was previously Racing and Trading Director of Corals for a number of years, has been appointed to review and improve our fixed odds trading operation. Trevor's direct involvement in the trade room should show through in the second half of the year and will have additional benefits for our new call centre business, which has recruited over 1,000 active customers since its full launch across both brands in early July 2003.

Additionally we have already seen significant margin gains from the introduction of our gaming products launched at the end of June 2003. We have recruited 2,350 casino customers in the first two months, together with almost 1,000 poker players and they have already helped to increase gross win to just over 7% in August 2003. This area should further benefit from the fully downloadable interactive version of casino that was launched in September 2003.

Margin and turnover should also benefit from a range of fixed odds gaming products, including slots and roulette for the new GPRS mobile phones, launched in early September 2003.

Content Division

The content division continued to improve revenues in its own right as well as providing betting customers for the betting brands from our web sites, sportinglife.com, teamtalk.com and bettingzone.co.uk. Average monthly unique users over the six month period rose to 3.45 million, up from 1.27 million in the corresponding period last year. The sites also saw a healthy increase in advertising revenue up 71% at £686,000 from £402,000 in the same period last year.

Total content revenues in the six months rose from £402,000 last year to £3.5 million in part through the acquisition of TEAMtalk. Our exclusive deal with Attheraces for their racecourse commentaries helped to confirm our position as a leading supplier of premium line telephone services and we saw a substantial growth in the supply of content to other businesses, including major portals and other bookmakers. Our broadcast division and satellite content services also continued to perform well and our sports live internet radio service is now used by a number of leading internet sites. We continue to develop services for mobile platforms including new play for cash slots and poker and are seeing an increase in direct to customer premium services, such as SMS goal alerts and tips of the day.

Outlook

With additional operational management in place, the focus of the second half will be on driving forward the growth and profitability of the gaming division as a whole. We will continue to focus on accelerating our content revenues, particularly in the mobile area, where we see significant growth opportunities. Provided that we are able to improve the fixed odds betting margin, we are confident that further progress in both divisions will lead us towards EBITDA profitability on a month by month basis during the second half of the year.

Eric Semel
Chief Executive Officer
23 September 2003

Summarised consolidated profit and loss account
for the 6 months ended 30 June 2003

| | | <i>6 months to 30 June 2003</i> | <i>6 months to 30 June 2002</i> |
|--|-------------|-------------------------------------|-------------------------------------|
| | <i>Note</i> | <i>£ '000</i> | <i>£ '000</i> |
| Turnover: Group and share of joint venture | | 27,586 | 17,506 |
| Less share of joint venture's turnover | | - | (3,875) |
| Group turnover | 2 | <u>27,586</u> | <u>13,631</u> |
| Cost of sales | | (23,788) | (12,907) |
| Gross profit | | 3,798 | 724 |
| Administrative expenses | | (6,479) | (2,902) |
| EBITDA* | | (1,646) | (1,608) |
| Goodwill amortisation and depreciation | | (754) | (570) |
| Exceptional costs | 3 | (281) | - |
| Group operating loss | | (2,681) | (2,178) |
| Share of operating profit of joint venture | | - | 114 |
| Total operating loss | | (2,681) | (2,064) |
| Loss on termination of an operation | | - | (1,075) |
| Net interest receivable / (payable) | | (245) | 13 |
| Loss on ordinary activities before taxation | | (2,926) | (3,126) |
| Taxation | | - | - |
| Retained loss for the period | | <u>(2,926)</u> | <u>(3,126)</u> |
| Loss per share | | | |
| - Basic and diluted | 4 | (5.96)p | (7.04)p |
| - Before goodwill amortisation | 4 | (5.02)p | (5.96)p |

* Earnings before interest, tax, depreciation, amortisation and exceptional costs.

Summarised consolidated balance sheet
at 30 June 2003

| | <i>at 30 June 2003</i> | <i>at 30 June 2002</i> |
|--|------------------------|------------------------|
| | £ '000 | £ '000 |
| Fixed assets | | |
| Intangible assets | 7,657 | 6,230 |
| Tangible assets | 953 | 671 |
| Investments | - | 3,966 |
| | <u>8,610</u> | <u>10,867</u> |
| Current assets | | |
| Stock | 49 | - |
| Debtors | 1,939 | 1,877 |
| Cash at bank and in hand | 2,618 | 1,250 |
| | <u>4,606</u> | <u>3,127</u> |
| Creditors: amounts falling due within one year | | |
| Short term loan | (3,000) | (4,000) |
| Other creditors | (4,878) | (2,566) |
| | <u>(3,272)</u> | <u>(3,439)</u> |
| Net current liabilities | | |
| | <u>(3,272)</u> | <u>(3,439)</u> |
| Total assets less current liabilities | 5,338 | 7,428 |
| Creditors: amounts falling due after more than one year | (1,201) | (798) |
| Provisions for liabilities and charges | | |
| Joint venture | | |
| Share of gross assets | - | - |
| Share of gross liabilities | - | - |
| Other provisions | - | (24) |
| Net assets | <u>4,137</u> | <u>6,606</u> |
| Capital and reserves | | |
| Called up share capital | 624 | 445 |
| Share premium account | 9,472 | 5,526 |
| Shares to be issued | 1,500 | 1,000 |
| Other reserve | 6,936 | 5,358 |
| Profit and loss account | (14,395) | (5,723) |
| Equity shareholders' funds | <u>4,137</u> | <u>6,606</u> |

Summarised consolidated cash flow statement
for the 6 months ended 30 June 2003

| | | <i>6 months to 30 June 2003</i> | <i>6 months to 30 June 2002</i> |
|---|------|-------------------------------------|-------------------------------------|
| | Note | £ '000 | £ '000 |
| Net cash outflow from operating activities | 7 | (2,317) | (2,437) |
| Returns on investments and servicing of finance | | (234) | 43 |
| Taxation | | - | - |
| Capital expenditure and financial investment | | (211) | (3,964) |
| Acquisitions and disposals | | 312 | (150) |
| | | <hr/> | <hr/> |
| Net cash outflow before financing | | (2,450) | (6,508) |
| Financing | | 2,094 | 3,997 |
| | | <hr/> | <hr/> |
| (Decrease)/increase in cash for the period | | <u>(356)</u> | <u>(2,511)</u> |

Reconciliation of net cash flow to movement in net debt

| | <i>6 months to 30 June 2003</i> | <i>6 months to 30 June 2002</i> |
|---|-------------------------------------|-------------------------------------|
| | £ '000 | £ '000 |
| (Decrease)/increase in cash for the period | (356) | (2,511) |
| (Increase)/decrease in debt | 2,003 | (3,997) |
| | <hr/> | <hr/> |
| Change in net funds/(debt) resulting from cash flows | 1,647 | (6,508) |
| Loans and finance lease liabilities arising on acquisitions | - | - |
| | <hr/> | <hr/> |
| Movement in net funds for the period | 1,647 | (6,508) |
| Net (debt)/funds brought forward | (2,033) | 3,748 |
| | <hr/> | <hr/> |
| Net (debt)/funds at end of period | <u>(386)</u> | <u>(2,760)</u> |

Consolidated reconciliation of shareholders' funds
for the 6 months ended 30 June 2003

| | <i>6 months to</i> <i>30 June 2003</i> £ '000 | <i>6 months to</i> <i>30 June 2002</i> £ '000 |
|---|---|---|
| Retained loss for the period | (2,926) | (3,126) |
| New shares issued | 4,097 | 25 |
| Exchange differences on retranslation of foreign subsidiaries | (45) | - |
| | <hr/> | <hr/> |
| Net (reduction in)/addition to shareholders' funds | 1,126 | (3,101) |
| Opening shareholders' funds | 3,011 | 9,707 |
| | <hr/> | <hr/> |
| Closing shareholders' funds | 4,137 | 6,606 |
| | <hr/> <hr/> | <hr/> <hr/> |

Notes to the interim statements

1. Basis of preparation of interim financial information

The financial information contained in this statement does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The unaudited consolidated financial information for the six months ended 30 June 2003 has been prepared on a basis consistent with the accounts for the period ended 31 December 2002. The financial information for the six months ended 30 June 2003 was approved by the Board on 23 September 2003 and will be posted to shareholders on 24 September 2003.

2. Segmental analysis

Geographical turnover has not been disclosed by origin, which arises wholly in the UK. 98% of Gaming turnover is derived from clients resident in the UK, the balance derived from Europe and Asia. 68% of content turnover is derived from clients resident in the UK, the balance derived from clients resident in Europe and the USA.

| | <i>6 months to 30 June 2003</i> | <i>6 months to 30 June 2002</i> |
|-------------------------|-------------------------------------|-------------------------------------|
| <u>Turnover</u> | <i>£ '000</i> | <i>£ '000</i> |
| Gaming Division | 24,068 | 13,071 |
| Content Division | 3,474 | 402 |
| Discontinued activities | 44 | 158 |
| Group turnover | <u>27,586</u> | <u>13,631</u> |
| | <i>6 months to 30 June 2003</i> | <i>6 months to 30 June 2002</i> |
| <u>Operating loss</u> | <i>£ '000</i> | <i>£ '000</i> |
| Gaming Division | (922) | (424) |
| Content Division | (989) | (839) |
| Discontinued activities | (98) | (341) |
| Common costs | (672) | (574) |
| Group operating loss | <u>(2,681)</u> | <u>(2,178)</u> |

3. Exceptional costs

In March 2003 the Group concluded the integration of the TEAMtalk business. This resulted in redundancy costs of £281,000 being charged to the profit and loss account.

4. Loss per share

The basic and diluted loss per share is based on losses attributable to shareholders of £2,926,000 (H1 2002: £3,126,000) and weighted average number of shares of 49,113,163 (H1 2002: 44,431,841). Loss per share before goodwill amortisation has been calculated on loss before goodwill amortisation of £462,000 (2001: £479,000) attributable to shareholders of £2,464,000 (H1 2002: £2,647,000). Diluted loss per share is the same as basic loss per share as the exercise of share options and warrants would reduce the loss per share and are therefore not dilutive.

5. Joint venture – totalbet.com

Totalbet.com was established as a joint venture arrangement between Sporting Life UK Ltd and Tote Credit Ltd in January 1999. The joint venture arrangement became part of the Group when Sporting Life UK Ltd was acquired on 12 October 2001. The joint venture arrangement was ended on 26 May 2002.

6. Taxation

The Group has no tax charge due to the losses in the period and has tax losses brought forward of approximately £20.0 million.

7. Reconciliation of Group operating loss to operating cash flows

| | <i>6 months to 30 June 2003 £ '000</i> | <i>6 months to 30 June 2002 £ '000</i> |
|---|--|--|
| Group operating loss | (2,681) | (2,178) |
| Depreciation | 292 | 91 |
| Amortisation | 462 | 479 |
| Decrease in stock | 19 | - |
| Decrease / (increase) in debtors | 441 | (106) |
| (Decrease)/increase in creditors | (850) | (723) |
| Net cash outflow from operating activities | <u>(2,317)</u> | <u>(2,437)</u> |