webisholdings plc

Global Online Gaming Group

Interim Report 2010

Stock Code: WEB

Welcome to Webis Holdings plc

Webis Holdings plc has a growing global customer base, placing bets on a wide variety of sports, through fixed odds and pari-mutuel, as well as wagering in our casinos and games suites.

Our customers place bets on all the major global sports — football, US sports, golf, tennis, formula 1, greyhound and horse racing. Our growing range of wagering opportunities reflects the diversity of sports played around the world.

Contents

Group at a Glance

betinternet.com (IOM) Limited

www.betinternet.com

betinternet.com (IOM) Limited
— the operator of the betinternet.com sportsbook portal, which provides opportunities for our customers to wager on an expanding variety of sporting events, combined with casinos, slots and fixed-odds games.

- Fixed odds sports betting
- Comprehensive football offering
- UK and Irish horse racing
- Improved casinos and games suites
- Provider of white label gaming solutions

Turnover: £36.2m

Share of Group sales

65%

(2009: £38m and 67%)

European Wagering Services Limited

www.link2bet.com

European Wagering Services Limited
— the operator of the link2bet.com pari-mutuel website and a provider of pari-mutuel technology services to our global client base, utilising our Isle of Man-based totalisator hub.

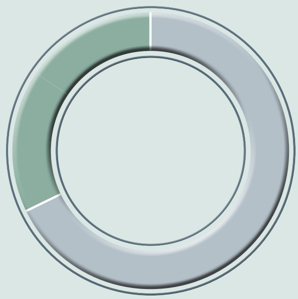
- Offers pari-mutuel (tote) account wagering on US content
- Operates its own AmTote hub, call-centre and www.link2bet.com
- Contracts with over 80 tracks in North America for international wagering
- Offers white label and batch wagering interfaces for global third parties
- Growth strategy through developing new distribution channels

Turnover: £19.4m

Share of Group sales

35%

(2009: £18.4m and 33%)



Chairman's Statement

Introduction

I am pleased to report that the Group generated a net profit during the first six months of the financial year. Our betinternet.com sportsbook ("betinternet") recorded a pre-tax profit following a successful World Cup tournament last summer, where the results were generally favourable for bookmakers. During the early part of the football season, the division's gross margin was also more stable than the prior year. European Wagering Services ("EWS"), our pari-mutuel operation, generated an overall increase in turnover during the period. However, the division's higher margin business was affected by the withdrawal of payment processing services for part of the period. EWS broke even at net profit level as a result.

European Wagering Services

EWS experienced a difficult trading period in the first half after our payment processing facility was, as previously notified, withdrawn with no notice in July. This hindered our ability to accept and return funds to players using our *link2bet.com* website, responsible for the majority of the operation's higher-margin business. We acted quickly to establish a temporary payment solution and, following the establishment of a permanent more robust solution, EWS' turnover returned to being in line with the board's expectations towards the end of the period.

Following the acquisition of a United States pari-mutuel hub operating licence with the North Dakota Racing Commission, the Board has established a clearly-defined business plan for the growth of EWS, which it is now actively pursuing. This plan will involve establishing a physical presence within the US and increasing marketing and development activity as well as the level of racing content. EWS' *link2bet.com* website is core to the achievement of these objectives. The Board also anticipates that the acquisition of a US licence will facilitate the identification and implementation of additional long-term cost-effective payment processing solutions.

The pace of regulatory change within the US gaming market is also expected to accelerate, and, initially, is likely to be phased in on a state-by-state basis rather than at Federal level. As it is important that the business keeps abreast of any changes, Ed Comins, the Group's Pari-Mutuel Operations Director, during the year will relocate to the US to monitor this aspect more closely and direct the implementation of our growth strategy.

betinternet

betinternet returned to profitability during the period, which included the World Cup finals in South Africa. This was achieved despite a reduction in high roller casino activity, which tends to be of a less frequent and sporadic nature. The margin for the World Cup was ahead of the Board's expectations and the business has also achieved a better margin since the start of the current football season than in the corresponding period last year. Encouragingly, weekly turnover on our fixed-odds sports betting has increased as the football season has progressed, in line with an increase in our content. We have, in particular, enhanced our In-Running offering, where we now offer live betting on Basketball, Cricket, Rugby, Snooker and Tennis as well as a significantly wider selection of football leagues. Turnover on In-Running events increased by 138% compared to the same period last year and this activity achieved a higher profit margin than pre-match betting.

We also upgraded betinternet's casino and games offering during the period by introducing a solution from CTXM, a well-established provider of gaming services.

We have been working on an upgrade of the 'look-and-feel' of betinternet's website, which we plan to launch later this month. This upgrade will provide a more contemporary appearance and will place greater emphasis to current In-Running events as well as sports events about to "go live". We will also roll-out our new Poker product at the same time.

Overview of results

Group turnover reduced to £55.6m (2009: £56.4m), primarily due to a fall in betinternet's turnover to £36.2m (2009: £38.0m) following the aforementioned decrease in casino activity. EWS' turnover grew by 5% to £19.4m (2009: £18.4m). Group gross profit increased to £1.6m (2009: £1.5m), leading to an overall improvement in gross margin by 0.33% to 2.92% (2009: 2.59%).

Administration expenses reduced by 3.6% to £1.32m (2009: £1.37m), primarily as a result of cost savings following expiry of our previous head office lease arrangements and a reduction in betinternet marketing spend in light of the ongoing strategy review.

The Group generated an operating profit of £171k during the period (2009: loss of £51k) and recorded a pre-tax profit of £162k (2009: loss of £58k).

Summary

Overall, conditions in the markets served by the Group remain challenging. The Board believes, however, that EWS is now well positioned for growth in the US market following the division's acquisition of a US licence. Whilst the benefits of our growth strategy for EWS may not become apparent until the new financial year, the Board is of the view that it is important to invest in this part of the Group for the future benefit of shareholders. As previously announced, the Board is reviewing its strategy for betinternet and this process is continuing. The Board will provide a further update to shareholders as appropriate.

Denham Eke
Chairman

Statement of Comprehensive Income

For the period ended 28 November 2010

	Note	**Period to 28 November 2010 (unaudited) £000**	Period to 29 November 2009 (unaudited) £000	Period to 30 May 2010 (audited) £000
Turnover	2	**55,611**	56,377	114,167
Cost of sales		**(53,970)**	(54,899)	(111,519)
Betting duty paid		**(19)**	(17)	(30)
Gross profit		**1,622**	1,461	2,618
Administration expenses		**(1,321)**	(1,374)	(2,655)
Earnings before interest, tax, depreciation and amortisation		**301**	87	(37)
Depreciation		**(125)**	(126)	(255)
Share-based costs	3	**(5)**	(12)	(23)
Total operating profit/(loss)		**171**	(51)	(315)
Net finance cost	4	**(9)**	(7)	(22)
Taxation	5	**—**	—	—
Profit/(loss) for the period		**162**	(58)	(337)
Basic profit/(loss) per share (pence)	6	**0.08**	(0.03)	(0.16)
Diluted profit/(loss) per share (pence)	6	**0.07**	(0.03)	(0.16)

The notes on pages 8 to 13 are an integral part of these consolidated interim financial statements.

Consolidated Statement of Financial Position

As at 28 November 2010

	Note	28 November 2010 (unaudited) £000	29 November 2009 (unaudited) £000	30 May 2010 (unaudited) £000
Non-current assets				
Intangible assets — goodwill	7	**111**	43	43
Intangible assets — software, website development and Trademarks		**272**	329	311
Property and equipment		**48**	93	75
		431	465	429
Current assets				
Trade and other receivables		**975**	755	834
Cash and cash equivalents		**997**	1,425	999
		1,972	2,180	1,833
Total assets		**2,403**	2,645	2,262
Current liabilities				
Bank overdraft		**—**	(345)	(295)
Trade and other payables		**(1,556)**	(1,352)	(1,287)
Convertible loan note	8	**(300)**	—	(300)
		(1,856)	(1,697)	(1,882)
Non-current liabilities				
Convertible loan notes	8	**—**	(300)	—
Total liabilities		**(1,856)**	(1,997)	(1,882)
Net assets		**547**	648	380
Shareholders' equity				
Called up share capital		**2,068**	2,068	2,068
Share premium account		**9,927**	9,927	9,927
Share option reserve		**112**	96	107
Profit and loss account		**(11,560)**	(11,443)	(11,722)
Total shareholders' equity		**547**	648	380

The notes on pages 8 to 13 are an integral part of these consolidated interim financial statements.

Statement of Changes in Shareholders' Equity

For the period ended 28 November 2010

	Ordinary share capital £000	Share premium £000	Share option reserve £000	Profit and loss account £000	Total equity £000
Balance as at 31 May 2009 (audited)	2,068	9,927	84	(11,385)	694
Share-based payments — share options	—	—	12	—	12
Loss for the period	—	—	—	(58)	(58)
Balance as at 29 November 2009 (unaudited)	2,068	9,927	96	(11,443)	648
Share-based payments — share options	—	—	11	—	11
Loss for the period	—	—	—	(279)	(279)
Balance as at 30 May 2010 (audited)	2,068	9,927	107	(11,722)	380
Share-based payments — share options	—	—	5	—	5
Profit for the period	—	—	—	162	162
Balance as at 28 November 2010 (unaudited)	**2,068**	**9,927**	**112**	**(11,560)**	**547**

The notes on pages 8 to 13 are an integral part of these consolidated interim financial statements.

Consolidated Statement of Cash Flows

For the period ended 28 November 2010

	Period to 28 November 2010 (unaudited) £000	Period to 29 November 2009 (unaudited) £000	Period to 30 May 2010 (unaudited) £000
Net cash inflow/(outflow) from operating activities	**429**	(67)	(335)
Cash flows from investing activities			
Purchase of intangible assets	**(121)**	(130)	(211)
Purchase of property and equipment	**(6)**	(13)	(25)
Net cash outflow from investing activities	**(127)**	(143)	(236)
Cash flows from financing activities			
Interest paid	**(9)**	(7)	(22)
Net cash outflow from financing activities	**(9)**	(7)	(22)
Net increase/(decrease) in cash and cash equivalents	**293**	(217)	(593)
Cash and cash equivalents at beginning of year	**704**	1,297	1,297
Net cash and cash equivalents at end of year	**997**	1,080	704
Cash and cash equivalents comprise			
Cash and deposits	**997**	1,425	999
Bank overdraft	**–**	(345)	(295)
	997	1,080	704
Cash generated from operations			
Profit/(loss) from operation	**171**	(51)	(315)
Adjusted for:			
Depreciation	**125**	126	255
Share-based payment charge	**5**	12	23
Increase in receivables	**(141)**	(42)	(121)
Increase/(decrease) in payables	**269**	(112)	(177)
	429	**(67)**	**(335)**

The notes on pages 8 to 13 are an integral part of these consolidated interim financial statements.

Notes to the Accounts

For the period ended 28 November 2010

1 Accounting policies

Webis Holdings plc is a company domiciled in the Isle of Man. The address of the Company's registered office is Viking House, Nelson Street, Douglas, Isle of Man, IM1 2AH.

The Group's consolidated financial statements consolidate those of the Company and its subsidiaries (together referred to as "the Group").

Statement of compliance

The consolidated interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting". They do not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the period ended 30 May 2010.

Basis of preparation

The preparation of interim financial statements in conformity with IAS 34 "Interim Financial Reporting" requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience, current and expected economic conditions, and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Going concern

The directors have prepared projected cash flow information for the next 18 months and are satisfied that the Group has adequate resources to meet its obligations as they fall due. The directors consider that it is appropriate that these interim financial statements are prepared on the going concern basis.

Basis of consolidation

(i) The consolidated financial statements incorporate the results of Webis Holdings plc and its subsidiaries. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue until the date that such control ceases.

(ii) Intragroup balances and income and expenses arising from intragroup transactions, are eliminated in preparing the condensed consolidated interim financial statements.

Foreign currency

The Group's financial statements are presented in Pounds Sterling, which is the Company's functional and presentational currency. All subsidiaries of the Group have Pounds Sterling as their functional currency.

Foreign currency transactions are translated into the functional currency using the approximate exchange rate prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the period end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Revenue recognition and turnover

Turnover represents the amounts staked in respect of bets placed by customers on events which occurred during the period. Cost of sales represents payouts to customers, together with commissions and royalties payable to agents and suppliers of software. Open betting positions are carried at open market value.

Segmental reporting

Segmental reporting is based on a three segment format, of which the primary format is the business areas in accordance with the Group's internal reporting structure and the secondary format is for geographical.

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1 **Accounting policies** continued

Financing costs
Interest payable on borrowings is calculated using the effective interest method.

Deferred income tax
Deferred taxation is provided in full, using the liability method, on timing differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax is realised. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Intangible assets — Goodwill
Goodwill represents the excess of fair value consideration over the fair value of the identifiable assets and liabilities acquired, arising on the acquisition of subsidiaries. Goodwill is included in non-current assets. Goodwill is reviewed annually for impairment and is carried at costs less accumulated impairment losses. Goodwill arising on acquisitions before the transition date of 29 May 2006 has been retained at the previous UK GAAP value and is no longer amortised but is tested annually for impairment.

Intangible assets — Other
Other intangible assets comprise website design and development costs and software licences and Trademarks and are stated at acquisition cost less accumulated amortisation. Carrying amounts are reviewed at each balance sheet date for impairment.

Costs that are directly attributable to the development of websites are recognised as intangible assets provided that the intangible asset will generate probable economic benefits and income streams through external use in line with SIC 32 “Intangible assets — website costs”. Content development and operating costs are expensed as incurred.

Careful judgement by the directors is applied when deciding whether recognition requirements for development costs have been met and whether the assets will generate probable future economic benefit. Amortisation is calculated using the straight line method, at annual rates estimated to write off the assets over their expected useful lives as follows:

Website design & development	33.33%
Trademarks	33.33%
Software licences	33.33%

Property and equipment
Items of property and equipment are stated at historical cost less accumulated depreciation (see below) and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the balance sheet date. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount. Assets are depreciated over their expected useful lives as follows:

Equipment	33.33%
Fixtures & fittings	33.33%

Impairment of assets
Goodwill arising on acquisitions and other assets that have an indefinite useful life and are not subject to amortisation are reviewed at least annually for impairment.

Notes to the Accounts continued

For the period ended 28 November 2010

1 Accounting policies continued

Other intangible assets, property and equipment are reviewed for impairment whenever there is an indication that the carrying amount of the asset may not be recoverable. If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised. Recoverable amount is the higher of fair value less costs to sell and value in use.

If at the balance sheet date there is any indication that an impairment loss is recognised in prior periods for an asset other than goodwill that no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount.

Share-based payments

For all the employee share options granted after 7 November 2002 and vesting on or after 29 May 2006, an expense is recognised in the income statement with a corresponding credit to equity. The equity share-based payment is measured at fair value at the date of the grant. Fair value is determined by reference to option pricing models, principally the Black–Scholes model.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Leasing

Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual terms of the instrument:

Trade and other receivables

Trade and other receivables do not carry any interest and are stated at their nominal amounts as reduced to equal the estimated present value of the future cash flows.

Cash and cash equivalents

Cash and cash equivalents defined as cash in bank and in hand as well as bank deposits and money held for processors. Cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather for investment or other purposes.

Bank borrowings

Interest bearing bank borrowings and overdrafts are recorded at the proceeds received net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs are charged on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent they are not settled in the period in which they arise.

Trade and other payables

Trade payables are non-interest bearing and are stated at nominal value.

Convertible loans

Convertible loan notes are interest bearing and are stated at fair value.

Equity instruments

Equity instruments issued by the Group are recorded at proceeds received, net of direct costs.

2 Segmental analysis

		Period to 28 November 2010 (unaudited) £000	Period to 29 November 2009 (unaudited) £000	Period to 30 May 2010 (audited) £000
Turnover				
Sportsbook	Asia Pacific	**28,654**	26,077	54,476
	UK & Ireland	**5,166**	6,384	13,656
	Europe	**1,740**	4,527	9,738
	Rest of the world	**597**	943	1,332
Parimutuel	United States	**10,120**	8,131	18,788
	Caribbean	**9,334**	10,315	16,177
		55,611	56,377	114,167
Profit/(loss) before tax				
Sportsbook		**163**	(334)	(778)
Parimutuel		**3**	288	464
Group		**(4)**	(12)	(23)
		162	(58)	(337)
Net assets/(liabilities)				
Sportsbook		**(593)**	(313)	(757)
Parimutuel		**1,582**	1,403	1,579
Group		**(442)**	(442)	(442)
		547	648	380

3 Share based costs

	Period to 28 November 2010 (unaudited) £000	Period to 29 November 2009 (unaudited) £000	Period to 30 May 2010 (audited) £000
Share options	**5**	12	23
	5	12	23

Notes to the Accounts continued

For the period ended 28 November 2010

4 Net finance cost

	Period to 28 November 2010 (unaudited) £000	Period to 29 November 2009 (unaudited) £000	Period to 30 May 2010 (audited) £000
Bank interest receivable	**–**	–	–
	–	–	–
Bank interest payable	**(4)**	(1)	(4)
Loan interest payable	**(5)**	(6)	(18)
	(9)	(7)	(22)
Net finance cost	**(9)**	(7)	(22)

5 Tax on profit / (loss) on ordinary activities

No provision for tax is required for either the current or previous period, due to the zero per cent corporate tax regime in the Isle of Man.

Unprovided deferred tax was £nil (2009: £Nil).

6 Earnings per ordinary share

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the period.

The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares, on the assumed conversion of all dilutive share options.

	Period to 28 November 2010 (unaudited) £000	Period to 29 November 2009 (unaudited) £000	Period to 30 May 2010 (audited) £000
Profit/(loss) for the period	**162**	(58)	(337)
	No.	No.	No.
Weighted average number of ordinary shares in issue	**206,826,667**	206,826,667	206,826,667
Diluted number of ordinary shares	**226,498,798**	206,826,667	226,498,798
Basic earnings/(loss) per share	**0.08**	(0.03)	(0.16)
Diluted earnings/(loss) per share	**0.07**	(0.03)	(0.16)

7 Acquisition of subsidiary

	28 November 2010 £000	29 November 2009 £000	30 May 2010 £000
Net assets acquired	–	–	–
Cost of acquisition	68	–	–
Goodwill arising on acquisition	68	–	–

On 1 August 2010, the Group acquired 100% of WatchandWager.com LLC, a US registered entity and licenced for pari-mutuel wagering in North Dakota. The company was dormant during the period under review.

8 Convertible loan note

	28 November 2010 (unaudited) £000	29 November 2009 (unaudited) £000	30 May 2010 (audited) £000
Convertible loan note	300	300	300

The Group issued a £300,000 secured convertible loan note to Burnbrae Limited on 23 February 2007. The loan note is secured over all the assets and undertakings of the Group and bears interest at LIBOR plus 4%. The loan is due to be repaid on 25 February 2011.

9 Preparation of the interim statements

The interim statements are unaudited, but have been reviewed in accordance with International Standards on Review Engagements 2410, by our independent auditor, KPMG Audit LLC.

The comparatives for the 52 weeks ended 30 May 2010 are not the Group's full statutory accounts for that financial period. Those accounts have been reported on by the Group's auditor and delivered to the Companies Registry. The report of the auditor was unqualified.

10 Approval of interim statements

The interim statements were approved by the board on 8 February 2011. The interim report is expected to be posted to shareholders on 15 February 2011 and will be available from that date at the Group's Registered Office: Viking House, Nelson Street, Douglas, Isle of Man, IM1 2AH.

The Group's nominated adviser and broker is Evolution Securities, Kings House, 1 Kings Street, Leeds, LS1 2HH.

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