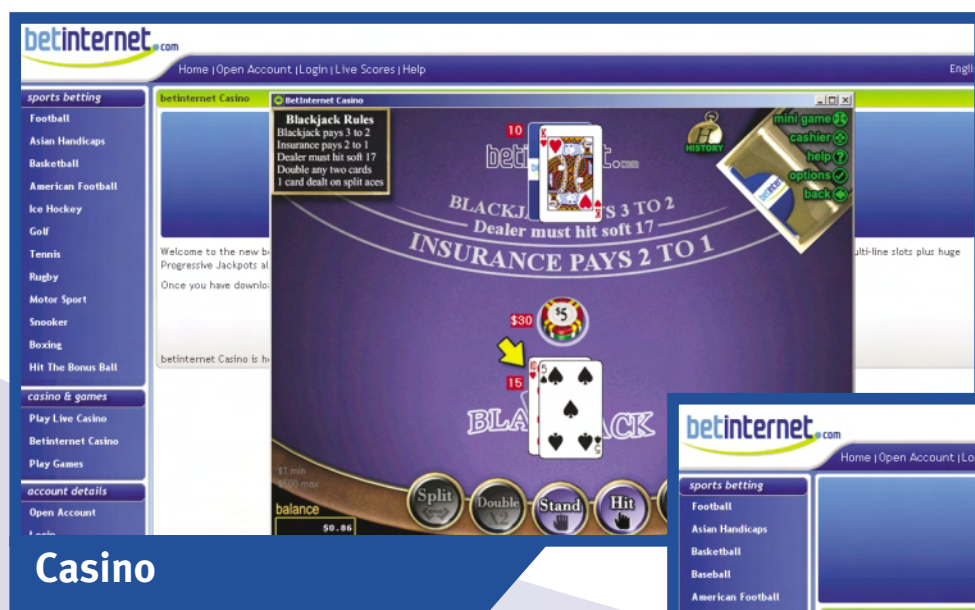


# the betting experts

**betinternet.com plc**  
annual report and accounts 2006

# Welcome to betinternet.com plc

We offer customers the opportunity to place online wagers on a wide variety of sports, through **fixed odds** and **pari-mutuel** betting, complemented by innovative casino and gaming products.



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Pari-Mutuel

Sports

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.

# Operational Overview

betinternet.com

## Fixed odds

- offers fixed odds sports betting
- specialist in European and Far East soccer
- Far East and Europe are largest markets
- new download casino and suite of games, recently added
- new platform launched in May 2006
- games and casino servers relocated to Curaçao

Fixed odds

The screenshot displays the betinternet.com website interface. At the top, the logo and navigation links (Home, Open Account, Login, Live Scores, Help) are visible. A language selector shows 'English' selected. The main content area features a large 'GOAL!!' banner for 'NEW betinternet Games!'. Below this, there are several promotional tiles for NFL, Golf, WNBA, and Triple Chance Hi-Lo. A sidebar on the left lists various sports betting categories like Football, Asian Handicaps, Basketball, Baseball, American Football, Ice Hockey, Golf, Tennis, and Outright Betting. On the right side, there is a 'Log On' section with fields for 'User Code' and 'Password', and a 'Log On' button. Below the login section, there are buttons for 'Latest Scores Standings & Results', 'Virtual Sports', 'Get a £25 Free Bet', and 'Live Dealer Webcam Casino'.



## EUROPEAN WAGERING SERVICES



# Pari-Mutuel

- offers pari-mutuel wagering
- owns and operates its own hub in the Isle of Man
- contracts with more than 70 thoroughbred, greyhound, harness and Jai Alai tracks worldwide
- provider of technical solutions for outlets and tracks
- operates [www.link2bet.com](http://www.link2bet.com) website

## Pari-Mutuel

The screenshot displays the Link2Bet website with the following structure:

- Header:** LINK2BET.com logo, customer service numbers (US 1 888 535 6786, UK/INT. +441624 698100), and navigation tabs for DOGS, HORSES, JAI-ALAI, and HARNESS.
- Main Content:** A central section titled "5 ways to bet" with a sub-header "Welcome to Link2bet's greyhound tracks section." It provides information on how to place bets and lists various betting services.
- Left Sidebar:** Contains links for Account Information, Deposits, Withdrawals, Terms and Conditions, Racing Information, Tracks and Schedules, Pools information, Race Cards, Wagering Help, Bet Types, Contact Us, FAQ / Help, Responsible Gaming, and About Us.
- Right Sidebar:** Includes Homebet Login, Secure Site, Payment Methods (NETELLER, Barik Wire), and Hub System.

# Chairman's Statement

## Introduction

Following the announcement of our interim results, our pari-mutuel operation, European Wagering Services (EWS), continued with its strong performance for the remainder of the year. After last year's set-back, its operations have expanded to offer a variety of wagering services through the Isle of Man hub. Turnover has improved and this, coupled with strong margins, now means that this company is again operating profitably. As we indicated, our fixed-odds business, betinternet.com, still faced challenges in the second half of the year, again placing considerable pressure on operating margins and profitability.

However, we fully expect that the fixed-odds revenue will increase significantly following the development of a new website with added functionality and a contemporary look, together with an enhanced games suite and a more substantial casino offering. The improved site, launched at the end of May 2006, has already received favourable reports. The early indications confirm that income from this source is increasing and this, coupled with further cost cutting, means that we expect that fixed-odds wagering and gaming will produce a sustainable profit throughout the forthcoming year.

## Strategy

Our initial strategy was to improve the fixed-odds performance by using Curacao as a hosting jurisdiction, developing a new and enhanced betting platform incorporating additional games, and by accepting wagers from the USA.

The execution of this strategy, however, was hindered as our chosen software supplier for the development of our new platform, IGW, was unable to provide a working product that suited our specific needs in time for the World Cup finals in June 2006. The board took the early decision to terminate the IGW contract, obtaining a full refund of costs, and to pursue a different route in order to have a new website live in time for the World Cup.

We opted to acquire an unencumbered licence for our existing platform's source code and contracted with a

local software company to complete our planned development by our deadline. As the software company we selected to carry out this project was responsible for the development of a large part of the existing platform's code, they had an intimate working knowledge of the product and the gaming industry. In addition, our own Marketing Manager, Graphic Designer and IT team worked round the clock to complete the project.

The decision to control our own fixed-odds platform and development is already proving to be a success. We are now able to implement additions and enhancements to the sportsbook site much more speedily. The new site with its contemporary look-and-feel, incorporating a new suite of games and an additional casino, was launched in time for the World Cup. The new look to the site has been extremely well received by our customers and the new gaming products have all proved to be successful revenue generators for the Company, as well as offering our customers a greater variety of gaming options.

It is the board's intention to continue with the development of our own software. This will give the Company much greater control over gives future plans and it gives a quicker route to market for new products or improved functionality. I am sure that the shareholders have seen the progress that the fixed-odds business has made in the short time that we have followed this strategy.

Alongside these developments, it became clear that the Company would be able to accept wagers from US customers without having to relocate its fixed-odds servers away from the Isle of Man. The board therefore decided to continue to operate the fixed-odds servers under its licence in the Isle of Man, although the games and casino will operate on servers based in Curacao, where the Company had successfully been granted a gaming licence.

However, in the light of the recent increasingly negative political focus on online gaming within the US, the Company has decided to take a more cautious view of the US market. As such, the Company's exposure in this region is very small and

**“The new look to the site has been extremely well received by our customers and the new gaming products have all proved to be successful revenue generators for the Company . . .”**

represents an insignificant percentage of its current turnover. The board will continue to monitor developments and adapt its strategy accordingly.

We will continue to develop the Group as a holding company with two separate and distinct operating profit centres. This will allow our pari-mutuel operation to further demonstrate independence from our fixed-odds activities, betinternet.com, and remove any potential conflict that this could create.

We will also continue to grow the fixed-odds activities into an integrated gaming platform with a strong customer focus. As part of this strategy, we hope to include coreFootball, the initial product from our investment in Global Coresports Limited, which is currently undergoing advanced beta-testing, into the site. We believe that this football manager game demonstrates two opportunities: it is the first peer-to-peer game to use an ‘artificial intelligence’ to power the action; and it will be the first skill-based game to appeal to a mass wagering environment.

### **Overview of results**

Group turnover fell to £67.6m (2005: £93.7m), a decrease of 28%, as a result of the previously announced setback in pari-mutuel turnover and the effect of the reduction in fixed-odds marketing, held back pending the new website launch. Despite being able to maintain the pari-mutuel gross operating profit, the group loss was £1.9m, the same as the previous period. This is the last year that the high amortisation figure will be charged.

It is important to note that the Group ended the year very strongly, showing EBITDA profits in the months of April and May following the impact of the new strategy. This trend has continued into the new financial year and the board is confident that the new initiatives in place show every indication that the Group will produce a full year profit for the coming financial year.

A more detailed analysis of the results is presented in the Operational Review on page 6.

### **Fund-raising**

The original strategy of developing the fixed-odds

website and locating gaming servers in Curacao was supported through a further placement of shares to Burnbrae Ltd in January 2006.

### **Board and executive changes**

In May 2006, we appointed Simon Nicholls as an executive director with responsibility for the Company’s pari-mutuel operation. Simon resigned from this position in August 2006. We are actively seeking a replacement for this role.

In February 2006, we strengthened our financial team with the appointment of Damon Waddington as the Group Financial Controller and subsequently he has recently taken over the role of Company Secretary. Damon had previously been a Financial Controller for the Fortis group. Damon has substantially increased the quality of financial reporting provided to the board and has been able to identify many areas for cost reductions.

### **Summary**

We have made considerable and encouraging progress towards our stated aim of having a compelling and exciting one-stop entertainment website for the fixed-odds business. I am confident that this will be the boost that is required to bring sustainable profitability in the coming financial year.

We can also expect a continued strong profitable performance from European Wagering Services as it builds on the growth and success that we have seen during the last six months.

Finally, the staff at betinternet have worked very hard throughout the year to ensure that the business continues to be better positioned for the future. I would like to thank them for their continued dedication and commitment.



Chairman

# Operational Review

The key project in making the sportsbook website more attractive to customers and offering a better variety of betting products has been the main focus of the development of the business through the latter part of the year. Our plans to have this done by a recognised software development company unfortunately didn't work out as we had planned, as they were unable to complete the contract in the required time, and this set us back several months whilst we awaited delivery. Under these circumstances, the only decision that we could make was to terminate the contract and concentrate on getting control of our own source code and completing the project under our own, more closely monitored instructions.

This decision has proved to be the catalyst for a number of very quick, revenue-generating improvements to the website, which were launched at the very end of the company's financial year and prior to the World Cup finals in June 2006. The look of the website and its associated brand has a much more contemporary feel and the introduction of a suite of fixed-odds games together with a download casino from Real Time Gaming has added greatly to the revenue stream potential for the business. These additional new products complement our existing Play Live Casino product, which continues to be very popular with our Far East-based customers. Further products will be added to the website in the coming months, including a fully embedded flash casino and Mahjong, a multi-player game popular in the Far East. Importantly, these additional products reduce the company's reliance on the volatile fixed-odds sports wagering. The development team will also be working on a white-label version of the website for potential future business ventures and to consolidate the European Wagering Services (EWS) platform onto one operating system.

EWS is now running a successful profitable operation. The levels of turnover have increased throughout the year and our margin remains strong. We are able to take advantage of our position of owning our own totalisator hub in the Isle of Man, by offering direct electronic access to racecourse pools to our customers as well as providing a telephone call centre and B2C website. There are a number of development projects in the pipeline that will bring additional revenue in the coming financial year. In addition, we plan to continue to increase the turnover through the hub by offering incentives to a select group of customers betting predominantly on greyhound racing as well as increasing our marketing spend to bring more customers to the link2bet.com website.

During the financial year, we took the decision to dispose of our share in our joint venture with Phumelela Gold Enterprises. The company has received little revenue from this joint venture and there were apparent conflicts of interests between the two companies.

Coresports (Global Coresports Limited), in which betinternet.com purchased a 22.5 per cent stake, is due to launch its first product, coreFootball, to coincide with the start of the football season. The delay in the previously announced launch date is as a result of personnel and technical issues that have now been resolved. coreFootball is a dynamic football management game using artificial intelligence and its offering will be unique in the gaming environment. The board eagerly awaits the commercial launch of this exciting project.



**“... the introduction of a suite of fixed-odds games together with a download casino from Real Time Gaming has added greatly to the revenue stream potential for the business.”**

### **Results**

The results, although accurately reflecting the challenging year that we have had, do not highlight the progress that the company has made within the last quarter. Many of the operational changes that have been made with both the sportsbook and EWS have only made their way through to the bottom line within the last few months of the reporting year. As a result of these changes, the company reached a break-even point for the last quarter.

The first half of the year was impacted by the fall in turnover within EWS and the lack of marketing for the sportsbook as we awaited the new platform's arrival. Consequently, group turnover dropped to £67.6m (2005: £93.7m).

The group operating loss before amortisation was £1.3m compared with £1.1m last year.

The overall loss was similar to last year at £1.9m, which includes an amortisation charge of £0.5m which will fall away after the first quarter of the new financial year.

As expected, we have continued to reduce overheads, which fell by 14% to £3.6m (2005: £4.2m), through a series of cost-cutting measures including a reduction in the number of higher paid staff. We expect a further reduction in this figure during the coming year.

### **Post-year**

Subsequent to the year end, we have seen the business reach profitability in the first quarter and the board is confident that this will continue through to the half year and beyond. The revenue streams from the additional products added to the sportsbook are already outperforming our own expectations and the World Cup proved a successful time for the company, with a significant increase in the number of registrants. Our aim will now be to continue to grow our customer base, in the knowledge that we have a much improved and diverse offering.

Furthermore, the pari-mutuel turnover through EWS has consistently improved month-on-month and it is pleasing to see that there are regular enquiries for the variety of services that we are able to offer.

It has been an interesting but productive time since I took on the role of Managing Director in January. The business is now on a very sound base from which I am confident that it will continue to grow. We have addressed many issues and have achieved a great deal, especially in the last quarter, but there are many more projects for us to focus on. This is an industry that rarely sits still and opportunities continue to present themselves. It is my intention to ensure that betinternet.com is correctly positioned to take advantage of these opportunities to guarantee its future success.

**Garry Knowles**  
Managing Director

# Directors and Advisers

## **D H N Eke, aged 55**

### **Non-Executive Chairman**

Denham Eke began his career in Stockbroking before moving into Corporate Planning for a major UK Insurance Broker. He is a director of many years' standing of both Public and Private companies involved in the retail, manufacturing and financial services sectors.

Mr Eke was appointed Chairman of betinternet.com plc in April 2003.

## **Garry Knowles, aged 39**

### **Managing Director**

Garry Knowles has 20 years' experience in the gaming industry having worked for the William Hill Organisation for 15 years, most recently as Deputy Manager for their International Call Centre in the Isle of Man. Latterly, Garry held the position of Director of Customer Relations for MGM Mirage Online before joining betinternet as Head of Trading Operations in November 2003.

Mr Knowles joined the board in June 2005.

## **J Mellon, aged 49**

### **Non-Executive Director**

Jim Mellon is the founding and principal shareholder and non-executive director of Regent Pacific Group Limited. In addition, he is the founding and principal shareholder and director of Charlemagne Capital Limited. Earlier in his career he worked for GT Management in the United States and in Hong Kong and later became the co-founder and managing director of Tyndall Holdings plc. He is currently a director of Fixed Odds Group Limited and a variety of other investment companies.

Mr Mellon joined the board in July 2004.

### **Directors**

D H N Eke, Chairman  
G Knowles, Managing Director  
J Mellon, Non-Executive Director

### **Secretary**

D Waddington

### **Registered Office**

Viking House, Nelson Street, Douglas  
Isle of Man, IM1 2AH

### **Principal Bankers**

Barclays Bank, Barclays House  
Victoria Street, Douglas  
Isle of Man, IM1 1HN

### **Auditors**

KPMG Audit LLC  
Chartered Accountants  
Heritage Court, 41 Athol Street  
Douglas, Isle of Man, IM99 1HN

### **Nominated Adviser and Broker**

Evolution Securities, Kings House  
1 Kings Street, Leeds, LS1 2HH

### **Registrars**

Capita Registrars  
The Registry, 34 Beckenham Road  
Beckenham, Kent, BR3 4TU

# Directors' Report

The directors present their annual report and the audited financial statements for the period ended 28 May 2006.

## Principal activities

The group operates as a licensed sports bookmaker providing a worldwide telephone and internet service. The group operates a pari-mutuel service to individual and business customers, utilising its totalisator facility in the Isle of Man. In previous periods this service was provided by way of joint venture.

## Business review

The group operates on a worldwide basis and provides internet and telephone facilities in respect of a wide variety of sporting events.

A more detailed review of the business, its results and future developments is given in the Chairman's Statement and Operational Review on pages 4 and 6, respectively.

## Proposed dividend

The directors do not propose the payment of a dividend (2005: nil).

## Policy and practice on payment of creditors

It is the policy of the group to agree appropriate terms and conditions for its transactions with suppliers by means of standard written terms to individually negotiated contracts. The group seeks to ensure that payments are always made in accordance with these terms and conditions.

At the year end there were 23 days (2005: 41 days) purchases in trade creditors.

## Directors and directors' interests

The directors who held office during the period were as follows:

D H N Eke	Chairman
G Knowles	Managing Director (appointed 3 June 2005)
P E Doona	Executive (resigned 11 January 2006)
H Mac Giolla Ri	Non-executive (resigned 21 July 2005)
J Mellon	Non-executive
S I Nicholls	(appointed 8 May 2006; resigned 21 August 2006)

The director retiring by rotation is Mr J Mellon who, being eligible, offers himself for re-election.

The directors who held office at the end of the period had the following interests in the ordinary shares of the company and options to purchase such shares arising from incentive schemes:

# Directors' Report continued

## Directors' interests

	Ordinary Shares		Options	
	Interest at end of period	Interest at start of period	Interest at end of period	Interest at start of period
D H N Eke	—	—	—	—
G Knowles	—	—	10,500,000	—
J Mellon	98,510,577	51,968,000	—	—
S I Nicholls (appointed 8 May 2006; resigned 21 August 2006)	—	—	7,000,000	—

Mr Mellon's interests are more fully described in the note below (Substantial interests).

Further details of the options issued to the executive directors are contained in the Report of the remuneration committee on pages 15 to 17.

Following the resignation of S I Nicholls on 21 August 2006, his 7,000,000 shares have lapsed.

## Substantial interests

On 8 August 2006 the following interests in 3 per cent or more of the company's ordinary share capital had been reported:

	%	Number of ordinary shares
Burnbrae Limited	49.53	97,542,577
Mill Properties Limited	6.66	13,120,700
Vincent Caldwell	5.57	10,964,967
Vidacos Nominees	4.66	9,183,491
Merrion Stockbrokers Nominees Limited a/c 900741	4.33	8,536,590

The board has been informed that Mr J Mellon is a beneficiary of a trust that holds the entire share capital of Burnbrae Limited. Mr Mellon is also a beneficiary of a trust that holds 950,000 ordinary shares in the company. Separately, Mr Mellon is also interested in 18,000 ordinary shares in the company.

The shares held by Mill Properties Limited represent a family related shareholding of the Caldwell family.



### **Annual General Meeting**

Shareholders will be asked to approve at the Annual General Meeting certain resolutions as special business. Some of these resolutions have become routine business at the Annual General Meetings of most public companies, including your company, and relate to the renewal of the authority for the directors to allot relevant securities and the renewal of the powers for the directors to allot equity securities for cash.

The board, as has been its practice in the past, is also proposing to seek authority for the company to purchase certain of its own shares and intends to seek shareholder approval to the Report of the Remuneration Committee.

### **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.

### **Political and charitable contributions**

The group made no political contributions nor donations to charities during the year.

### **Auditors**

KPMG Audit LLC, being eligible, have expressed their willingness to continue in office in accordance with Section 12(2) of the Isle of Man Companies Act 1982.

By order of the board

### **D Waddington**

Company Secretary  
8 September 2006

# Corporate Governance

The company is committed to high standards of corporate governance. The board is accountable to the company's shareholders for good corporate governance.

The company has applied the principles set out in Section 1 of the revised Combined Code (issued in 2003).

This statement describes how the principles of corporate governance are applied to the company and the company's compliance with the Code provisions.

## 1. Directors

The company is controlled through the board of directors which comprises one executive and two non-executive directors.

The Chairman is mainly responsible for the conduct of the board, and he, together with the Managing Director, seeks to ensure that all directors receive sufficient relevant information on financial, business and corporate issues prior to meetings.

The Managing Director is responsible for co-ordinating the company's business and implementing strategy. The Managing Director currently also undertakes the role of Finance Director.

None of the non-executive directors is deemed to be independent, although the board intends to appoint at least one independent director at an appropriate time.

Shareholders are encouraged to contact the Chairman should they require clarification on any aspect of the company's business.

All directors are able to take independent professional advice in furtherance of their duties if necessary.

The board has a formal schedule of matters reserved for it and meets 11 times per year. It is responsible for overall group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks including legislative, jurisdictional and major liability management issues. The board approves the annual budget and the progress towards achievement of the budget. The board also considers employee issues and key appointments. It also seeks to ensure 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 two standing committees, both of which operate within defined terms of reference.

The committees established are the Audit Committee and the Remuneration Committee. The board does not consider it necessary for a company of its size to establish a standing Nominations Committee. Instead the board's policy in relation to board appointments is for the Chairman to agree selection criteria with all board members and use independent recruitment consultants to initiate the search for candidates. The final decision on appointments rests with the full board.

## 2. Directors' Remuneration

The Report of the Remuneration Committee is set out on pages 15 to 17 of the report and accounts.

## 3. Relations with Shareholders

The company encourages two-way communication with both its institutional and private investors and attempts to respond quickly to all queries received verbally or in writing.

The Managing Director attended meetings with analysts and shareholders during the period ended 28 May 2006, at the time of the announcements of both the company's interim and final results.

The board has sought to use the Annual General Meeting to communicate with private investors and encourages their participation.

## 4. Financial Reporting

The performance and financial position of the company are provided in the Chairman's Statement on page 4, the Operational Review on page 6 and the Directors' Report on pages 9 to 11. These enable the board to present a balanced and understandable assessment of the company's position and prospects. The directors' responsibilities for the financial statements are described on page 14.

## Internal Control

The board seeks to apply Principle D.2 of the Combined Code and believes it has controls in place

which have established an ongoing process for identifying, evaluating and managing the significant risks faced by the group. In this regard, the board seeks to work closely with the company's auditors.

The board also acknowledges that it has overall responsibility for reviewing the effectiveness of internal control. It believes that senior management within the group's operating businesses should also contribute in a substantial way and this has been built into the process.

There are inherent limitations in any system of internal control and, accordingly, even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets. The system adopted by the board manages rather than eliminates the risk of failure to achieve business objectives.

In carrying out its review of the effectiveness of internal control in the group the board takes into consideration the following key features of the risk management process and system of internal control:

- Risks are identified which are relevant to the group as a whole and encompass all aspects of risk including operational, compliance, financial and strategic.
- The board seeks to identify, monitor and control the significant risks to an acceptable level throughout the group. In order to do so the Audit Committee, acting on behalf of the board, reviews risk matters at each meeting of the Audit Committee.
- The group operates a comprehensive budgeting and financial reporting system which, as a matter of routine, compares actual results with budgets. Management accounts are prepared for each operating activity and the group on a monthly basis. Material variances from budget are thoroughly investigated. In addition, the group's profitability forecast is regularly updated based on actual performance as the year progresses. A thorough reforecast exercise is undertaken following production of the half-year accounts.

- Cash flow forecasts are regularly prepared to ensure that the group has adequate funds and resources for the foreseeable future.

Risks are identified and appraised through the annual process of preparing these budgets.

Steps have been taken to embed internal control and risk management into the operations of the business and to deal with areas of improvement which come to management's and the board's attention. This process is continuing to increase risk awareness throughout the group.

#### **Audit Committee**

The Audit Committee comprises the non-executive directors and is chaired by Mr D H N Eke. The committee acts in an advisory capacity to the board and meets not less than twice a year. Its terms of reference require it to take an independent view of the appropriateness of the group's accounting controls, policies and procedures. The committee also reviews and approves the reports, appointment and fees of the external auditors, and meets its external auditors at least twice a year. Additional meetings may be requested by the auditors.

#### **Going Concern**

As more fully explained in note 1 to the accounts on page 23, and after making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

#### **Internal Audit**

The directors have reviewed the need for an internal audit function and believe that the group is not of sufficient size and complexity to require such a function.

#### **Compliance Statement**

The company has sought to fully comply with the provisions set out in Section 1 of the code and the board considers that as far as is practicable for a company of its size and stage of development it complies with the principles of the code at the date of this report.

# Statement of Directors' Responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period which meet the requirements of Isle of Man company law. In addition, the directors have elected to prepare the group and company financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Isle of Man Companies Acts 1931 to 2004. They 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.

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law.



# Report of the Remuneration Committee

## Introduction

This report has been prepared to accord as far as possible with the Directors' Remuneration Report Regulations 2002 which introduced new statutory requirements for UK public companies in relation to the disclosure of directors' remuneration in respect of periods ending on or after 31 December 2002. This report also attempts to meet, as far as is practicable for a company of betinternet's size, the relevant requirements of the Listing Rules of the UK Financial Services Authority and describes how the board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the company at which the financial statements will be approved.

## Remuneration Committee

The company has an established Remuneration Committee which has a formal constitution and is composed of the non-executive directors of the company under the Chairmanship of D H N Eke.

No director plays a part in any discussion about his own remuneration.

## Remuneration Policy

The Remuneration Committee's policy is to ensure that the remuneration packages offered are competitive and designed to attract, retain and motivate executive directors of the right calibre.

The major elements of the remuneration package for the executive directors are:

- Basic annual salary and benefits.
- Eligibility to participate in an annual bonus scheme, when such scheme operates.
- Share option incentives.
- Contribution to a pension plan.

The committee seeks to ensure that bonus and share option incentives have a strong link with individual performance.

## Basic Salary

The level of basic annual salary and benefits is determined by the Committee, taking into account the performance of the individual and information from independent sources on the rates of salary for similar jobs in comparable companies.

## Annual Bonus Payments

Although no bonus scheme operated during the period under review, it is anticipated that a scheme will operate when group profitability and cash flow allow. Bonuses for the executive directors are calculated with reference to the profit before tax as disclosed in the audited financial statements of the group, together with an assessment by the Committee of the director's performance against agreed personal targets. Bonus payments are not pensionable.

## Share Options

The Committee believes that share ownership by executives strengthens the link between their personal interests and those of shareholders. The company currently operates four share option schemes, although it is intended that following the adoption of the 2005 Share Option Plan, no further options will be issued under these schemes. Options are granted to executives periodically at the discretion of the Remuneration Committee. The grant of share options is not subject to fixed performance criteria. This is deemed to be appropriate as it allows the Committee to consider the performance of the group and the contribution of the individual executives and, as with annual bonus payments, illustrates the relative importance placed on performance related remuneration.

## Pensions

The group intends to contribute to the personal pension plan of Mr S I Nicholls in the forthcoming period.

## Service Contracts

During the period under review, the service contract of Mr G R Knowles provided for a notice period of six months by all parties.

# Report of the Remuneration Committee

continued

## Aggregate Directors' Remuneration

The total amounts for directors' remuneration were as follows:

	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Emoluments — salaries, bonus and taxable benefits	<b>152</b>	119
— fees	<b>20</b>	41
Contributions to pension plans	<b>9</b>	12
	<b>181</b>	172

## Directors' Emoluments

	<b>Basic</b>		<b>Termination</b>	<b>Taxable</b>	<b>2006</b>	<b>2005</b>
	<b>Salary</b>	<b>Fees</b>	<b>Payments</b>	<b>Benefits</b>	<b>Total</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Executive</b>						
P E Doona (resigned 11 January 2006)	69	—	—	9	<b>78</b>	131
G R Knowles (appointed 3 June 2005)	78	—	—	—	<b>78</b>	—
S I Nicholls (appointed 8 May 2006; resigned 21 August 2006)	5	—	—	—	<b>5</b>	—
<b>Non-Executive</b>						
D H N Eke*	—	20	—	—	<b>20</b>	20
H Mac Giolla Ri (resigned 21 July 2005)	—	—	—	—	<b>—</b>	11
J Mellon	—	—	—	—	<b>—</b>	10
<b>Aggregate emoluments</b>	<b>152</b>	<b>20</b>	<b>—</b>	<b>9</b>	<b>181</b>	<b>172</b>

\* paid to Burnbrae Limited

Details of the options outstanding at 28 May 2006 are as follows:

	30 May 2005	(Lapsed)/ granted in period	28 May 2006	Exercise price	Date from which exercisable	Expiry date
<b>P E Doona</b>						
(a) 2000 Share Option Plan	777,914	(777,914)	—	12p	20 Dec. 2005	20 Dec. 2012
(b) 2000 USA Share Option Plan	1,555,826	(1,555,826)	—	10p	23 Dec. 2005	23 Dec. 2012
(c) 2005 Share Option Plan	4,500,000	(4,500,000)	—	10.4p	18 March 2008	18 March 2015
<b>G R Knowles</b>						
(a) 2005 Share Option Plan	—	1,500,000	<b>1,500,000</b>	10.4p	18 March 2008	18 March 2015
(b) 2005 Share Option Plan	—	9,000,000	<b>9,000,000</b>	5p	18 March 2009	18 March 2016
<b>S I Nicholls</b>						
(a) 2005 Share Option Plan	—	7,000,000	<b>7,000,000</b>	5p	18 March 2009	18 March 2016
<b>W D Mummery</b> (resigned 25 June 2004)						
(a) 1998 Share Option Plan	500,000	—	<b>500,000</b>	1p	23 April 2002	23 April 2009
	7,333,740	10,666,260	<b>18,000,000</b>			

The market price of the shares at 26 May 2006 (the last closing price prior to the period end) was 9.88p. The range during the period was 4.50p to 12.25p.

#### Approval

The report was approved by the board of directors and signed on behalf of the board.

#### D H N Eke

Chairman  
8 September 2006

# Report of the Independent Auditors



## Report of the Independent Auditors, KPMG Audit LLC, to the members of betinternet.com plc

We have audited the financial statements of betinternet.com plc for the period ended 28 May 2006 which comprise the group Profit and Loss Account, the group and parent company Balance Sheet, the group Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 14, the company's directors are responsible for the preparation of the financial statements in accordance with applicable Isle of Man company law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 Isle of Man Companies Acts 1931 to 2004. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' transactions with the company is not disclosed.

We read the Directors' Report and any other information accompanying the financial statements and consider the implications for our report if we become aware of any apparent misstatements or inconsistencies within it.

### Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the UK 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 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the group and company's affairs as at 28 May 2006 and of its loss for the period then ended; and
- have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004.

### KPMG Audit LLC

#### Chartered Accountants

Heritage Court, 41 Athol Street,  
Douglas, Isle of Man, IM99 1HN  
8 September 2006



# Consolidated Profit and Loss Account

for the period ended 28 May 2006

	Note	2006 £000	2005 £000
<b>Turnover including share of joint venture</b>			
Betting stakes received	2		
Sportsbook		57,496	47,904
Pari-Mutuel		10,073	47,197
		67,569	95,101
Less EWS share when in joint venture		—	(1,403)
<b>Total group turnover</b>	2	<b>67,569</b>	<b>93,698</b>
<b>Cost of sales</b>			
Winnings paid and bets laid off	2	(65,246)	(90,564)
Betting duty paid	2	(58)	(82)
<b>Gross Profit</b>		<b>2,265</b>	<b>3,052</b>
Administration expenses		(3,588)	(4,169)
<b>Operating loss before amortisation</b>	3	<b>(1,323)</b>	<b>(1,117)</b>
Goodwill amortisation		(498)	(675)
<b>Operating loss after amortisation</b>		<b>(1,821)</b>	<b>(1,792)</b>
Share of operating loss in joint venture		—	(105)
<b>Total operating loss including share of joint venture</b>		<b>(1,821)</b>	<b>(1,897)</b>
Interest paid		(87)	—
Interest		4	5
<b>Loss on ordinary activities before and after taxation and retained loss for the period</b>	5,14	<b>(1,904)</b>	<b>(1,892)</b>
<b>Basic and diluted loss per share (pence)</b>	6	<b>(1.18)</b>	<b>(1.40)</b>

All results derive from continuing operations.

A statement of total recognised gains and losses is not required as there were no recognised gains and losses other than the loss for the current period. This was also the case for the prior period.

The accompanying accounting policies and notes form an integral part of these financial statements.

# Consolidated Balance Sheet

as at 28 May 2006

	Note	2006 £000	2006 £000	2005 £000	2005 £000
<b>Fixed assets</b>					
Intangible assets	7		43		541
Tangible assets	8		224		351
Investments	9		271		83
			<b>538</b>		<b>975</b>
<b>Current assets</b>					
Debtors	10	549		207	
Cash at bank and in hand		458		650	
		<b>1,007</b>		<b>857</b>	
<b>Creditors</b>					
amounts falling due within one year	11	(1,490)		(1,611)	
<b>Net current liabilities</b>			<b>(483)</b>		<b>(754)</b>
<b>Creditors</b>					
amounts falling due after more than one year	12		—		(63)
<b>Net assets</b>			<b>55</b>		<b>158</b>
<b>Capital and reserves</b>					
Called up share capital	13		1,969		1,505
Share premium	14		9,550		8,213
Profit and loss account	14		(11,464)		(9,560)
<b>Equity shareholders' funds</b>	15		<b>55</b>		<b>158</b>

The financial statements were approved by the board of directors on 8 September 2006

## D H N Eke

Director

## G R Knowles

Director

The accompanying policies and notes form an integral part of these financial statements.

# Company Balance Sheet

as at 28 May 2006

	Note	2006 £000	2006 £000	2005 £000	2005 £000
<b>Fixed assets</b>					
Tangible assets	8		95		52
Investments	9		972		784
			<b>1,067</b>		<b>836</b>
<b>Current assets</b>					
Debtors	10	310		482	
Cash at bank and in hand		330		446	
		<b>640</b>		<b>928</b>	
<b>Creditors</b>					
amounts falling due within one year	11	(1,029)		(1,268)	
<b>Net current liabilities</b>			<b>(389)</b>		<b>(340)</b>
<b>Provision for liabilities and charges</b>					
<b>Creditors</b>					
amounts falling due after more than one year	12		—		(63)
<b>Net assets</b>			<b>678</b>		<b>433</b>
<b>Capital and reserves</b>					
Called up share capital	13		1,969		1,505
Share premium	14		9,550		8,213
Profit and loss account	14		(10,841)		(9,285)
<b>Equity shareholders' funds</b>	15		<b>678</b>		<b>433</b>

The financial statements were approved by the board of directors on 8 September 2006

## D H N Eke

Director

## G R Knowles

Director

The accompanying policies and notes form an integral part of these financial statements.

# Consolidated Cash Flow Statement

for the period ended 28 May 2006

	Note	2006 £000	2005 £000
Net cash outflow from operating activities	16	(1,467)	(1,182)
Returns on investment and servicing of finance		(83)	5
Capital expenditure		(141)	(94)
Acquisition	17	(188)	328
Cash outflow before use of liquid resources and financing		(1,879)	(943)
Financing	17	1,738	985
(Decrease)/increase in cash for the period		(141)	42
<b>Reconciliation of net cash flow to movement in net funds</b>			
		2006 £000	2005 £000
Opening net funds		479	437
(Decrease)/increase in cash for the period		(141)	42
Closing net funds	18	338	479

# Notes to the Accounts

for the period ended 28 May 2006

## 1 Accounting policies

In the absence of accounting standards in the Isle of Man, the directors have chosen to apply United Kingdom Accounting Standards published by the United Kingdom's Accounting Standards Board in the preparation of the financial statements, provided that they are not inconsistent with the requirements of the Isle of Man Companies Acts 1931 to 2004. No such inconsistencies were identified.

The particular accounting policies adopted are described below.

### Basis of preparation of the financial statements

The group has incurred losses of £11,464,000 since the commencement of trading. As at 28 May 2006 the group has net assets of £55,000 and net cash balances of £338,000, of which £125,000 was deposited with Barclays Merchant Services as security for the provision of credit card services. The directors are in the process of implementing a number of strategies designed to achieve profitability.

The directors have considered the adequacy of the cash resources and working capital available to the group for the next 12 months and are satisfied that the group has adequate resources to meet its obligations as they fall due. On this basis the directors have concluded that it is appropriate to prepare these financial statements on a going concern basis.

### Accounting convention

The financial statements are prepared under the historical cost convention.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all of its subsidiaries as at 28 May 2006.

Under the acquisition method of accounting, the results of subsidiary undertakings are included from the effective date of acquisition.

### Investments

Investments held as fixed assets are stated at cost less provision for impairment.

### Betting stakes, free bets and winnings

Turnover represents the stakes received from customers less any void bets recorded.

Stakes received from customers less voids are recognised as income at the point the event to which they relate has been completed. Winnings paid are reflected at the point the outcome of the event to which the bet relates becomes known. Any stakes received prior to the balance sheet date, where the event to which they relate occurs after the balance sheet date, are not recognised as income, but are reflected as deferred income in the balance sheet.

Where free bets are offered to customers as part of a promotional drive, the amount of the stakes given as free bets are reflected as an expense disclosed within advertising/marketing expenses, which is included with administrative expenses in the profit and loss account. Where the free bet is a winning bet the winnings paid to the customer are reflected as if the bet was a normal bet.

The company is liable to betting duty at 1.5% of net stake receipts in the case of international bets and 15% on net UK stake receipts. Net stakes are betting stakes received less winnings and bets laid off.

### Employee share schemes

The cost of awards to employees that take the form of shares or rights to shares are recognised over the period prior to which the employee becomes unconditionally entitled to the shares.

# Notes to the Accounts continued

for the period ended 28 May 2006

## Foreign currency

Foreign currency balances and the assets and liabilities of overseas subsidiaries are translated to Sterling at the rate of exchange ruling on the last business day in the group's financial year.

Foreign currency transactions are converted to Sterling at the rate of exchange ruling at the date of the transaction.

Profits and losses on foreign currency transactions and conversions are included in the profit and loss account.

## Operating leases

Operating lease rentals are charged in the profit and loss account in equal annual amounts over the lease term.

## Bank interest

Bank interest income is recognised in the profit and loss account on a receivable basis and accordingly amounts are reflected in the balance sheet for interest receivable at the balance sheet date.

## Goodwill

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. It is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life, which is two years. Impairment tests on the carrying value of goodwill are undertaken at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

## Tangible fixed assets

Development costs for the group, which relate to the group's proprietary software, are capitalised where, in the opinion of the directors, there is a benefit that will be derived from the expenditure incurred.

Depreciation on these and other tangible fixed assets is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Development costs	33 <sup>1</sup> / <sub>3</sub> %
Computer equipment and software	33 <sup>1</sup> / <sub>3</sub> %
Fixtures and fittings and office equipment	33 <sup>1</sup> / <sub>3</sub> %

## Creditors

Amounts due to customers which arise from cash payments they have made to group companies or the proceeds of successful bets are included in Trade Creditors. These amounts can be used by customers for stakes relating to future bets or may be the subject of a request by the customer for repayment.

In the event of a customer account remaining dormant for a period of more than two years, the balance may, after review, be written back to income.

## Deferred taxation

Deferred taxation is provided on all timing differences arising from different treatment of items for accounting and taxation purposes, calculated at the rates at which it is anticipated that tax will arise, except for deferred tax assets which are only recognised to the extent that they have been agreed with the Assessor of Income Tax and/or the group anticipates making sufficient taxable profits in the near future.



## 2 Segmental analysis

Year ended 28 May 2006

	Sportsbook £000	Pari-Mutuel £000	Total £000
Betting stakes received	57,496	10,073	67,569
Winnings paid and bets laid off	(56,146)	(9,100)	(65,246)
Gross margin	1,350	973	2,323
%	2.3%	9.7%	
Betting duty			(58)
Gross profit			2,265

Year ended 29 May 2005

	Sportsbook £000	Pari-Mutuel £000	Total £000
Betting stakes received	47,904	45,794	93,698
Winnings paid and bets laid off	(45,836)	(44,728)	(90,564)
Gross margin	2,068	1,066	3,134
%	4.3%	2.3%	
Betting duty			(82)
Gross profit			3,052

In line with the development of our one stop entertainment website, casino and games results are now included under the Sportsbook segment.

## 3 Group operating loss

Group operating loss is stated after charging:

	2006 £000	2005 £000
Auditors' remuneration:		
Group — audit	58	36
— other services	4	49
Company — audit	53	27
Depreciation of tangible fixed assets	268	465
Exchange losses	57	31
Operating lease rentals — other than plant and machinery	98	168

# Notes to the Accounts continued

for the period ended 28 May 2006

## 4 Staff numbers and cost

	Number of employees	
	2006	2005
	41	41
The aggregate payroll costs of these persons were as follows:		
	2006	2005
	£000	£000
Wages and salaries	1,207	1,093
Social security costs	119	115
Other pension costs	15	18
	<b>1,341</b>	<b>1,226</b>

## 5 Tax on loss on ordinary activities

No provision for tax is required for either the current or prior period, due to the level of losses incurred.

Unrecognised deferred tax amounted to an asset of £nil (2005: £720,000) due to the introduction of a zero per cent corporate income tax regime in the Isle of Man. In 2005 the unrecognised deferred tax asset arose as a result of accumulated tax losses less accelerated capital allowances.

## 6 Loss per share

The basic loss per share is calculated by dividing the losses attributable to ordinary shareholders by the weighted average number of ordinary shares during the year.

Calculation of loss per share is based on losses of £1,903,950 (2005: £1,892,156) and the weighted average number of ordinary shares being the equivalent of 161,915,279 (2005: 135,517,660) ordinary 1p shares.

The diluted loss per share is the same as the basic loss per share as the adjustment to assume conversion of dilutive ordinary shares would decrease the loss per share.

## 7 Intangible assets

	Goodwill
	£000
<b>Cost</b>	
At 30 May 2005	1,435
Additions during period	—
At 28 May 2006	<b>1,435</b>
<b>Accumulated depreciation</b>	
At 30 May 2005	894
Charge	498
At 28 May 2006	<b>1,392</b>
<b>Net book value</b>	
At 28 May 2006	<b>43</b>
At 29 May 2005	541

## Tangible assets Group

	Development costs £000	Computer equipment and software £000	Office equipment, fixture & fittings £000	Total £000
<b>Cost</b>				
At 30 May 2005	1,692	985	230	2,907
Additions	47	83	11	141
Arising on acquisition	—	—	—	—
Disposals	—	—	—	—
At 28 May 2006	<b>1,739</b>	<b>1,068</b>	<b>241</b>	<b>3,048</b>
<b>Depreciation</b>				
At 30 May 2005	1,512	858	186	2,556
Charge	138	98	32	268
Disposals	—	—	—	—
Arising on acquisition	—	—	—	—
At 28 May 2006	<b>1,650</b>	<b>956</b>	<b>218</b>	<b>2,824</b>
<b>Net book value</b>				
At 28 May 2006	<b>89</b>	<b>112</b>	<b>23</b>	<b>224</b>
At 29 May 2005	180	127	44	351

## Company

	Computer equipment and software £000	Office equipment, fixture & fittings £000	Total £000
<b>Cost</b>			
At 30 May 2005	146	79	225
Additions	83	—	83
Disposals	—	—	—
At 28 May 2006	<b>229</b>	<b>79</b>	<b>308</b>
At 30 May 2005	103	70	173
Charge	34	6	40
Disposals	—	—	—
At 28 May 2006	<b>137</b>	<b>76</b>	<b>213</b>
<b>Net book value</b>			
At 28 May 2006	<b>92</b>	<b>3</b>	<b>95</b>
At 29 May 2005	43	9	52

# Notes to the Accounts continued

for the period ended 28 May 2006

## 9 Investments Group

	Investments £000	Total £000
At 30 May 2005	83	83
Addition	188	188
At 28 May 2006	<b>271</b>	<b>271</b>

Company	Investment in subsidiary companies £000	Investments £000	Total £000
At 30 May 2005	701	83	784
Addition	—	188	188
At 28 May 2006	701	271	972

### Details of investments at 28 May 2006 are as follows:

Subsidiaries	Country of incorporation	Activity	Holding (%)
European Wagering Services Limited	Isle of Man	Operation of interactive wagering totaliser hub	100
Technical Facilities & Services Limited	Isle of Man	Provision of betting systems to group companies	100
bi Marketing Limited	Macau	Provision of marketing services	100
Oddsalive Limited	Malta	Operation of internet betting service	100
betinternet UK.com Limited	England	Holder of UK bookmaker's permit non-trading	100

### Investments

Global coreSports Limited	Isle of Man	Gaming software developer	17.32
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The investment in Global coreSports Limited is held at cost.

**10 Debtors**

	The Group		The Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Trade debtors	433	97	8	15
Amount due from group undertakings	—	—	203	418
VAT recoverable	6	—	6	—
Other debtors and prepayments	110	110	93	49
	<b>549</b>	207	<b>310</b>	482

	The Group		The Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Due within one year	549	210	107	64
Due after more than one year	—	641	203	418
	<b>549</b>	851	<b>310</b>	482

Amounts due from group undertakings are unsecured, interest free and repayable in more than year.

**11 Creditors: amounts falling due within one year**

	The Group		The Company	
	2006 £000	2005 £000	2006 £000	2005 £000
Bank overdrafts	120	171	120	129
Trade creditors	979	1,137	585	884
Deferred income	60	25	60	25
Income tax and national insurance	22	28	—	24
Accruals and other creditors	309	250	264	206
	<b>1,490</b>	1,611	<b>1,029</b>	1,268

**12 Creditors: amounts falling due after more than one year**

	The Group and Company	
	2006 £000	2005 £000
Loan	—	63

The company had been provided with a loan facility, totalling £250,000 from a shareholder, Burnbrae Limited, in respect of its investment in Global coreSports Limited. The loan has been fully repaid during the period.

The loan was secured over certain assets of the group and bore interest at the rate of LIBOR plus 4%.

# Notes to the Accounts continued

for the period ended 28 May 2006

13 Share capital Authorised	No.	2006 £000	2005 £000
Ordinary shares of 1p each	<b>415,000,000</b>	<b>4,150</b>	1,850
Allotted, issued and fully paid			
At 30 May 2005: ordinary shares of 1p each	150,461,602	<b>1,505</b>	1,167
Issued during the year	46,482,577	<b>464</b>	338
At 28 May 2006: ordinary shares of 1p each	<b>196,944,179</b>	<b>1,969</b>	1,505

In an ordinary resolution passed at a extraordinary general meeting on 11 January 2006, the company's authorised share capital was increased from 185,000,000 ordinary 1p shares to 415,000,000 ordinary 1p shares.

During the period the following issues of ordinary shares occurred:

(1) On 28 February 2006, 40,000,000 ordinary shares were issued to Burnbrae Limited at 4p per share under the terms of a placing agreement approved by shareholders at an extraordinary general meeting held 11 January 2006.

(2) On 28 February 2006, 6,442,577 ordinary shares were issued to Burnbrae Limited at 4p in respect of a convertible loan note.

(3) On 10 May 2006, 40,000 ordinary shares were issued at 1p under the terms of the 1998 share option plan.

## Options

Movements in share options during the period ended 28 May 2006 were as follows:

	No.
At 30 May 2005 — 1p ordinary shares	9,435,340
Options granted	16,000,000
Options lapsed	(6,833,740)
Options exercised	(40,000)
At 28 May 2006 — 1p ordinary shares	<b>18,561,600</b>

Details of options at 28 May 2006 were as follows:

	Price per share	Options granted	Exercisable between
1998 Share Option Plan	1p	40,000	June 2001 and June 2008
1998 Share Option Plan	1p	500,000	April 2002 and April 2009
1998 Share Option Plan	3.25p	33,600	September 2002 and September 2009
1998 Share Option Plan	23.15p	56,000	September 2003 and September 2010
1998 Share Option Plan	23.15p	32,000	April 2003 and April 2010
2000 USA Share Option Plan	10p	133,334	December 2003 and December 2012
2000 USA Share Option Plan	10p	133,333	December 2004 and December 2012
2000 Share Option Plan	12p	133,333	December 2005 and December 2012
2005 Share Option Plan	10.4p	1,500,000	March 2008 and March 2015
2005 Share Option Plan	5.0p	16,000,000	March 2009 and March 2016
		<b>18,561,600</b>	



13 **Share capital continued**

**Warrants**

Movements in share warrants during the period ended 28 May 2006 were as follows:

<b>Warrants issued to Williams de Broë Plc</b>	<b>No.</b>	<b>Subscription price (p)</b>	<b>Maximum subscription £000</b>	<b>Latest date of exercise</b>
At 30 May 2005 and 28 May 2006 — 1p ordinary shares	312,500	16	50	May 2007

14 **Reserves Group**

	<b>Share Premium £000</b>	<b>Profit and Loss Account £000</b>
At 30 May 2005	8,213	(9,560)
Premium on share issues less expenses	1,337	—
Retained loss for the year	—	(1,904)
<b>At 28 May 2006</b>	<b>9,550</b>	<b>(11,464)</b>
<b>Company</b>		
At 30 May 2005	8,213	(9,285)
Premium on share issues less expenses	1,337	—
Retained loss for the year	—	(1,556)
<b>At 28 May 2006</b>	<b>9,550</b>	<b>(10,841)</b>

15 **Reconciliation of movements in equity shareholders' funds**

	<b>The Group</b>		<b>The Company</b>	
	<b>2006 £000</b>	<b>2005 £000</b>	<b>2006 £000</b>	<b>2005 £000</b>
Loss for the financial period	(1,904)	(1,892)	(1,556)	(2,405)
Increase in issued share capital and share premium account	1,801	1,623	1,801	1,623
Net (decrease)/increase in shareholders' funds	(103)	(269)	245	(782)
Opening equity shareholders' funds	158	427	433	1,215
Closing equity shareholders' funds	55	158	678	433

# Notes to the Accounts continued

for the period ended 28 May 2006

<b>16</b>	<b>Reconciliation of operating loss to net cash outflow from operating activities</b>		
		<b>2006</b>	<b>2005</b>
		<b>£000</b>	<b>£000</b>
	Operating loss	(1,821)	(1,792)
	Depreciation and amortisation charges	766	1,140
	(Increase)/decrease in debtors	(342)	537
	Decrease in creditors	(70)	(1,067)
	Net cash outflow from operating activities	<b>(1,467)</b>	<b>(1,182)</b>

<b>17</b>	<b>Analysis of cash flows for headings netted in cash flow statement</b>		
		<b>2006</b>	<b>2005</b>
		<b>£000</b>	<b>£000</b>
	<b>Acquisition</b>		
	Investment	(188)	(83)
	Cash acquired from subsidiary	—	411
		<b>(188)</b>	<b>328</b>
	<b>Financing</b>		
	Issue of new shares including share premium	1,801	922
	Amounts falling due after more than one year	(63)	63
		<b>1,738</b>	<b>985</b>

<b>18</b>	<b>Analysis of net funds</b>			
		<b>At 30 May</b>		<b>At 28 May</b>
		<b>2005</b>	<b>Cash flow</b>	<b>2006</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>
	Cash in hand and at bank	650	(192)	<b>458</b>
	Bank overdraft	(171)	51	<b>(120)</b>
		479	(141)	<b>338</b>

**19**     **Contingent liabilities**

By the nature of the business, a stake can be received from a customer in respect of some event happening in the future, and hence the level of any actual liability to the group cannot be assessed until after that event has occurred, although the maximum potential liability can be determined. As at the balance sheet date there were £59,687 (2005: £24,959) of such stakes that had been received where the event to which they related was after the Balance Sheet date. Accordingly, such amount has been reflected as deferred income in the Balance Sheet (see note 11).

**20**     **Capital commitments**

As at 28 May 2006, the group had no capital commitments (2005: £nil).

**21**     **Operating lease commitments**

At 28 May 2006, the group was committed to making the following payments during the next period in respect of operating leases:

	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Leases which expire after five years	<b>103</b>	103

**22**     **Related party transactions**

Rental and service charge payments of £104,077 (2005: £168,237) and loan interest of £13,971 (2005: £nil) were paid to Burnbrae Limited during the period.

During the period ended 28 May 2006 a total of £nil (2005: £12,668) was paid to Mr M Caldwell, a major shareholder, for company secretarial services.

# Notes to the Accounts continued

for the period ended 28 May 2006

## 23 Financial instruments

The group's financial instruments comprise cash balances, loans and liquid resources. The group has no derivatives. The main purpose of these financial instruments is to raise finance for the group's operations. The disclosures below exclude short-term debtors and creditors. It is, and has been throughout the period under review, the group's policy that no trading in financial instruments should be undertaken.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk.

### Interest rate risk

The group finances its operations mainly through capital with limited levels of borrowings. Cash at bank and in hand earns interest at floating rates, based principally on short-term inter bank rates. At the period end the group had no borrowings other than temporary overdrafts caused by timing differences associated with cash in transit.

### Liquidity

The group's objective is to maintain continuity of funding through trading and share issues but to also retain flexibility through the use of short-term loans.

In order to provide customers with the reassurance that repayment requests are immediately met, the group seeks to ensure that its cash balances plus amounts held by host tracks on behalf of customers exceed the balances due to customers. On this measure, there was a shortfall of £103,000 at the period end. The Directors anticipate that the business will generate a positive cash flow in the forthcoming period to meet any of its obligations to customers.

### Credit risk

The group's policy is to control credit risk by only entering into financial instruments with counterparties after taking account of their credit rating.

### Foreign currency risk

The group incurs foreign currency risk on stakes and winnings that are denominated in a currency other than sterling. The group ensures that whenever stakes are denominated in other currencies, corresponding winnings are also denominated in those other currencies, thus limiting the foreign currency risk to the margin on these transactions.

### Fair values

The fair value of financial assets and liabilities is equivalent to balance sheet values.

## 24 Pension arrangements

The group does not operate any pension scheme for any of its directors or employees. Payments were, however, made on behalf of certain directors to contribute to their own personal pension arrangements.

## 25 Controlling party and ultimate controlling party

The directors consider the ultimate controlling party to be Burnbrae Group Limited.

# Notice of Meeting

NOTICE IS HEREBY GIVEN that the eighth Annual General Meeting of betinternet.com plc (“the Company”) will be held at The Claremont Hotel, 18/19 Loch Promenade, Douglas, Isle of Man, on 9 October 2006 at 11 am for the purpose of transacting the following business:

## Ordinary Business

- 1 To receive and adopt the report of the directors and the accounts for the year ended 28 May 2006.
- 2 To re-elect as a director Mr J Mellon who retires by rotation and, being eligible, offers himself for re-election in accordance with the company’s Articles of Association.
- 3 To reappoint KPMG Audit LLC as auditors and to authorise the directors to determine their remuneration.

## Special Business

To consider and, if thought fit, to pass the following resolutions:

As an Ordinary Resolution

- 4 That the authority granted to the Directors of the Company to allot relevant securities by a special resolution which was passed at the Annual General Meeting of the Company held on 9 December 2002 be renewed pursuant to the power provided by Article 6(E) of the Company’s Articles of Association, that such renewal of authority be for the exercise of that power generally and unconditionally and in all respects in the same terms as originally granted, and that such authority shall expire at the conclusion of the next Annual General Meeting of the Company after the date of passing of this Resolution unless renewed, varied or revoked by the Company in General Meeting.

As a Special Resolution

- 5 The directors of the Company be and they are hereby empowered pursuant to Article 8 of the Articles of Association of the Company (the “Articles”) to allot equity securities (as defined in Article 7(H) of the Articles) pursuant to the authority conferred on the directors to allot relevant securities by Resolution 4 above as if paragraph A of Article 7 of the Articles did not apply to such allotment PROVIDED THAT this power shall be limited to:
  - (i) the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities are issued proportionally (or as nearly as may be) to the respective number of ordinary shares held by such shareholders (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with issues arising under the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or the fixing of exchange rates applicable to any such equity securities where such equity securities are to be issued to shareholders in more than one territory, or legal or practical problems in respect of overseas shareholders, fractional entitlements or otherwise howsoever);
  - (ii) the allotment of equity securities to holders of any options under any share option scheme of the Company for the time being in force, on the exercise by them of any such options; and
  - (iii) the allotment (otherwise than pursuant to paragraphs (i) or (ii) above) of equity securities up to a maximum aggregate nominal value equal to 5% of the issued ordinary share capital of the Company for the time being.

The power hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company after the date of passing of this Resolution unless such power shall be renewed in accordance with and subject to the provisions of the said Article 8, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to such offer or agreement as if the power conferred hereby had not expired.

# Notice of Meeting continued

## As Ordinary Resolutions

- 6 That in accordance with Article 12 of the Company's Articles of Association and with Section 13 of the Companies Act 1992 the Company be generally and unconditionally authorised to make market purchases (as defined by Section 13(2) of the Companies Act 1992) of ordinary shares of 1 pence each in its capital, provided that:
- (a) the maximum number of shares that may be acquired is 19,694,000;
  - (b) the minimum price that may be paid for the shares is 1 pence;
  - (c) the maximum price that may be paid is, for a share the Company contracts to purchase on any day, a sum equal to 105% of the average of the upper and lower quotations on the Daily Official List of the London Stock Exchange for the ordinary shares of the Company on the five business days immediately preceding that day; and
  - (d) the authority conferred by this resolution shall expire at the conclusion of the next Annual General Meeting of the Company after the date of the passing of this Resolution unless renewed, varied or revoked by the Company in General Meeting, but not so as to prejudice the completion of a purchase contracted before that date.
- 7 That the Report of the remuneration committee be received and adopted.

## Notes

1. A member of the company who is entitled to attend and vote at the above Meeting is entitled to appoint a proxy or proxies to attend, speak and vote on his, her or its behalf. A proxy need not be a member of the company. Completion of a proxy form does not preclude a member from attending the above Meeting and from speaking and voting thereat.
2. To be valid, proxy forms must be deposited with the company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 11 am on 5 October 2006.
3. A copy of the contracts of service between each of the current directors of the company and the company will be available for inspection at the Meeting from 15 minutes prior to and until the conclusion of the Meeting.
4. The register of directors' interests and particulars of directors' transactions in the share capital of the company and its subsidiary companies will be available for inspection at the Meeting from 15 minutes prior to and until the conclusion of the Meeting. Otherwise they will be open for inspection at the Registered Office of the company during normal business hours on any weekday (Saturdays and Isle of Man public holidays excluded) from the date of this notice until the date of the Meeting.

By order of the Board

**D Waddington**

Secretary

Dated 8 September 2006

Registered Office: Viking House, Nelson Street, Douglas,  
Isle of Man, IM1 2AH







EUROPEAN WAGERING SERVICES



**betinternet.com plc**

Viking House, Nelson Street  
Douglas, Isle of Man  
IM1 2AH, British Isles

**Tel:** +44 (0) 1624 698141

**Fax:** +44 (0) 1624 698134

**Email:** [info@betinternet.com](mailto:info@betinternet.com)

**Website:** [www.betinternet.com](http://www.betinternet.com)

**Corporate Information Website:**

Go to [www.betinternet.com](http://www.betinternet.com) and click on Corporate info