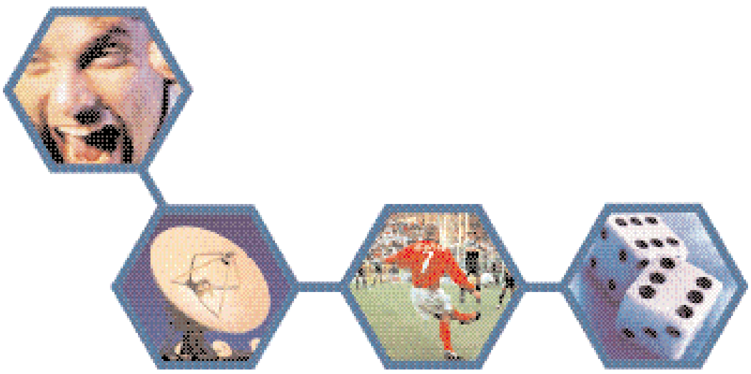
Annual Report and Accounts 2002

betinternet.com plc

betinternet.com plc

Company Incorporation No. 089278C

REPORT AND FINANCIAL STATEMENTS
Year ended 31 MAY 2002



REPORT AND FINANCIAL STATEMENTS 2002

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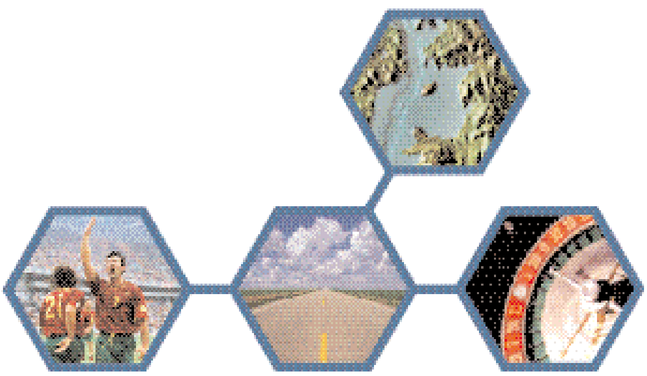


OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

V.E. Caldwell	Chairman and Managing Director
P.E. Doona	Finance Director
S.P. Graham	Operations Director
W.D. Mummery	Technical Director
M.L. Child	Non-Executive Director
H. Corkill	Non-Executive Director

SECRETARY

D.P. Craine

REGISTERED OFFICE

Burleigh Manor
Peel Road
Douglas
Isle of Man
IM1 5EP

PRINCIPAL BANKERS

Barclays Bank
Barclays House
Victoria Street
Douglas
Isle of Man
IM1 2LE

AUDITORS

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

NOMINATED ADVISER AND BROKER

Williams de Broe
PO Box 515
6 Broadgate
London
EC2M 2RP

REGISTRARS

Northern Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA

DIRECTORS' PROFILES

V.E. Caldwell, aged 41, Chairman and Managing Director

Vincent Caldwell established the company, commencing a telephone betting operation in October 1998 and expanding to the Internet in mid March 2000. Prior to this Mr Caldwell, together with members of his family, owned and managed a number of licenced betting shops in Ireland. On moving to the Isle of Man he worked for Stanley Leisure plc and the Joe Jennings chain of betting shops.

Under the terms of the licence issued to the company by the Isle of Man Gaming Commission he is the designated official and is therefore the manager with day-to-day responsibility for the running of the betting operation.

In February 2000 Vincent Caldwell was appointed the inaugural Chairman of the Isle of Man Association of Betting Office Licencees.

P.E. Doona, aged 50, Finance Director

Paul Doona was appointed to the board in October 2002. Mr Doona is a Chartered Accountant with many years public company experience, having been Finance Director and Company Secretary of St. Modwen Properties plc from 1988 to 1999; and Finance Director and later Managing Director of Claims Direct plc from 1999 to 2001. Mr Doona was interim Finance Director of bet365 Group Ltd until August 2002.

S.P. Graham, aged 34, Operations Director

Sean Graham joined the company in April 2000. Mr Graham has extensive experience of the betting industry having worked for 15 years in his family's business, S.P. Graham Limited, for which he was the race room controller.

W.D. Mummery, aged 56, Technical Director

Bill Mummery is responsible for information technology matters for the group. Mr. Mummery has over thirty years' experience in the electronics industry, including building and managing national television broadcasting operations for overseas governments and electronic manufacturing in the Peoples' Republic of China. He has over twenty-five years' experience with Granada PLC, including positions as managing director of African and Far Eastern subsidiaries.

M.L. Child, aged 40, Non-Executive Director

Mark Child is an Executive Director of Regent Pacific Group Limited responsible for corporate finance and several investee companies. He has worked in institutional stockbroking and corporate finance for the past 17 years.

H. Corkill ACIB, aged 60, Non-Executive Director

Harley Corkill has assumed responsibility for non-information technology related compliance matters, including anti-money laundering regulations. Mr. Corkill worked for many years in a number of senior management positions with the Isle of Man Bank. He is a director of Ulster Bank (IOM) Limited and a trustee of Nobles Isle of Man Hospital.

CHAIRMAN'S STATEMENT

Introduction

I am pleased to report upon a year of solid progress for your company during which the controlled organic growth of the business and the board's strategy of moving towards more stable markets were substantially underpinned by two successful fund raising exercises. Accordingly, the company is now strongly placed to achieve its aim of establishing a long - term and profitable presence in the global gaming market.

Overview of Results

Turnover, including the group's share of joint ventures, was £53.01m an increase of 9.2% compared with the previous year (£48.54m). More importantly, the mix of business changed substantially with the turnover from Internet and pari - mutuel gaming accounting for 74% of group turnover compared with 18.5% in the previous year. Customer accounts were 23,795 at the period end, an increase of 188% during the year.

Gross profit increased by 139% to £2.87m (2001 : £1.20m), representing 5.5% of turnover (2001 : 2.5%). The gross margin on bets taken over the internet was 6.24% compared with 3.26% for bets taken via the call centre, vindicating the board's decision to focus on the former.

After taking account of administration expenses, the company's share of the operating loss in its Euro Off-Track joint venture, and interest, the deficit for the period reduced to £1.98m (2001 : loss of £2.32m). The basic and diluted loss per share was 2.33p (2001 : loss of 2.96p).

Strategy

It remains the board's intention to selectively grow your company's presence in the global Internet and pari - mutuel gaming markets and maintain its current level of activity in respect of its telephone operations. In this way it aims to establish a less volatile income stream.

The board believes it inevitable that a process of consolidation will take place in the sector. Accordingly, the company is actively seeking opportunities by way of acquisition or partnership which are consistent with its overall strategic aims.

Regulation

As a result of the company's location in the Isle of Man it operates in a regulatory system which recognizes the legitimacy of the Internet as a way of transacting business globally.

Unfortunately, the position is less clear - cut in other territories, including, importantly, the USA. In view of this continuing uncertainty, the board took the decision to close all US fixed odds betting accounts during the year. It still remains your board's view, however, that there will be an eventual move by the US authorities towards the legalisation of gaming via the Internet. By operating in a transparent manner, within a well regulated environment, your company is well placed to participate in that market when, and if, the opportunity arises.

CHAIRMAN'S STATEMENT (CONT.)

Corporate Matters

As mentioned above, by way of separate subscription and placing agreements, your company has raised additional equity, net of expenses, of £3.7m. Of this amount, £800,000 was received after the period end and a further £800,000 is due to be received in December 2002 subject to satisfying warranties contained in the subscription agreement. Your company also declared a bonus issue of 1 warrant for every 4 shares held by existing and subscription shareholders at the date of the subscription agreement. The warrants are listed on AIM and may be exercised during a period of three years following their issue. At the time of the placing agreement, WIlliams de Broe were issued with warrants over 312,500 ordinary shares at a price of 16p. These warrants may be exercised at any time prior to May 2007.

Further details of warrants issued during the period and outstanding at 31 May 2002 are included in Note 12 on page 27.

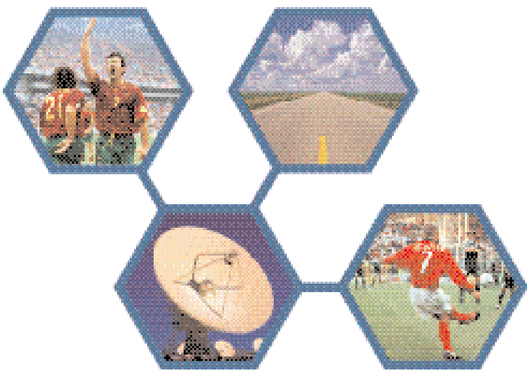
We recently announced the resignation from the board of Pat Flanagan, Operations Director, and David Craine, Finance Director. Pat and David both made significant contributions to the establishment and growth of the company and I thank them for their efforts. I am delighted that David will continue to assist the company as Company Secretary. Paul Doona replaces David as FInance Director and has a wealth of public company experience including considerable exposure to the leisure and gaming sectors. Sean Graham, who joined the company in April 2000, will have responsibility for Operations and Trading.

Your board was pleased to announce the appointments of WIlliams De Broe as nominated advisor and broker to the company and KPMG Audit LLC as auditors. We look forward to a long and fruitful relationship with both organisations and thank Capital International Ltd, Insinger English Trust and Deloitte & Touche for their previous support.

Prospects

Your company entered the new financial year well funded and having achieved a number of its strategic objectives. The Football World Cup held in June 2002 provided further impetus to both turnover and customer accounts, a trend which has continued with the commencement of the new European Soccer Season.

I am confident therefore that the current financial year will see a continued improvement in turnover, margin and cash generation.



OPERATIONAL REVIEW

INTRODUCTION

The twelve months ended 31 May 2002 represented a year of solid progress for betinternet. As with many of our peers, we have yet to reach the 'holy grail' of consistent monthly profit and positive cash flow; but we met or exceeded all of our strategic objectives and improved upon our business Key Perfomance Indicators in all areas. Accordingly we remain confident that by continuing to grow in a controlled manner whether by way of organic growth, business combination, or an amalgam of the two, the company will, in the short-term, achieve consistent profitability and cash generation.

Our business model has high operational gearing and we aim to benefit from the significant economies of scale inherent in it.

REVIEW OF OPERATIONS

The key strategic objective achieved during the year was to grow the Internet sportsbook whilst managing a reduction in emphasis on call centre operations; the latter being relatively more costly from an operational point of view and contains far greater liability management issues.

Telephone betting tends to attract a more professional gambler, whilst the Internet is an attractive medium for the 'fun' gambler seeking to enhance his or her leisure experience.

The successful achievement of this objective can be illustrated by the increase in Internet turnover from £8.99m in 2001 to £38.67m in 2002 – a 330% increase. At the same time, by positive management, we were able to reduce telephone-betting turnover from £39.55m in 2001 to £13.95m in 2002 – a 65% reduction. Importantly, however, the margins from both operations improved. The Internet operation achieved a gross margin percentage, after betting duty, of 6.24% compared with 4.83% in the previous year. This provided a gross profit, after betting duty paid, of £2.41m compared with £0.43m in the previous year. The telephone operation on the other hand, produced a reduced gross profit of £0.46m compared with £0.76m in the previous year. Gross margin, after betting duty paid, increased, however, to 3.26% compared with 1.93% in the previous year.

Internet Operations

In addition to the increase in turnover and margin mentioned above, other KPIs were also positive.

Customer accounts, which at the date of this report are 32,154, increased to 23,795 during the year under review compared with 8,262 at the previous year-end. Of the new accounts opened, 4,900 came from Asia and 3,100 from the U.K., the latter with minimal U.K. marketing.

The Far East continues to be betinternet's strategically most important market with 69% of Internet turnover coming from that region. The U.K. accounted for 6% of turnover and the rest of the world, predominantly Europe, accounted for the balance of 25%. Our spread of business can be seen, however, by the fact that we serve customers in around 140 countries.

Growth in turnover from the Far East has more than compensated for the loss in activity caused by the board's decision to close all USA fixed odds betting accounts. Whilst, we consider that the USA market will eventually move towards a regulated online regime, we believe that our decision to withdraw from that market was a correct one. In the meantime, we believe that further growth will come from the markets we currently serve, although we continually review the targeting and emphasis of our marketing in those markets which we believe are under exploited.

Increased emphasis on the U.K. remains a medium-term possibility. We are currently unable to market directly into the U.K. and our penetration is, therefore, limited. Marketing is the most important element in building customer traffic and in order for betinternet to market into the U.K. we would need to establish a U.K. presence and pay the U.K. betting duty on U.K. bets. The board's view is that currently the costs associated with such a move outweigh the benefits, but the matter will be kept under review.

Our turnover growth has also been fuelled by our specialism in soccer betting and our flexibility in offering a range of 'exotic' bets to our target customer – the young, low stakes gambler, seeking to enhance his or her leisure experience.

OPERATIONAL REVIEW

Soccer now accounts for approximately 78% of Internet turnover, with the next most popular sports being American Sports, which have a combined 19% of turnover. Tennis and Golf are the next most popular, measured by size of turnover. In addition, the company regularly offers odds on up to 20 other sports.

Amongst the 'exotic' bets on offer is 'Asian Handicaps' a form of handicap betting on soccer matches, which appeals to our customer base, not only in Asia, but also world-wide.

In addition to customer and turnover growth, other key performance indicators such as the cost of acquiring customers and average revenue per customer have improved, as illustrated below:

	Average Revenue per Customer		Cost of Acquiring Customers	
	2002 £	2001 £	2002 £	2001 £
Far East	4,500	1,800	33	88
Rest of the World	3,122	2,171	30	44
United Kingdom	1,305	n/a	16	n/a

2002 Soccer World Cup

A considerable amount of marketing effort was directed towards this event, the results of which will be felt in the current financial period. Whilst the event proved to be a financial success for the company, its success will also be measured by customer retention and improved brand awareness. In this regard, we have been averaging 1,300 account openings per month in the current financial year.

Technology

Further development of our technical infrastructure was undertaken during the year, in particular during the build up to the World Cup. This significantly increased our handling capacity for deposit transactions, concurrent visitors to our site and 'bets per second'. Indeed, the resilience of the system was demonstrated by the fact that we handled more than 10,000 bets per day during the tournament. As well as growing our systems 'vertically' we invested substantially to increase the resilience of our systems. In this regard we were able to deliver 99.9% availability of our platform to clients during the period. We also rolled out a major revamp of our software in advance of the World Cup, which delivered further improvements for the customer in functionality, navigation and transactability.

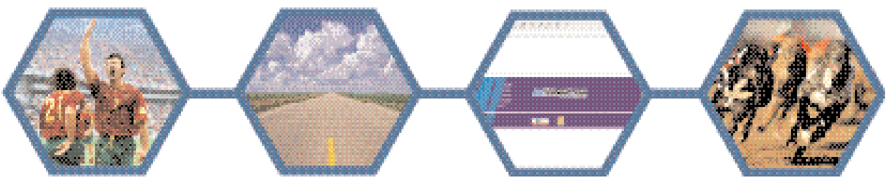
Enhancements to our on-line banking systems have delivered increased security and anti-fraud measures for the company, and delivered a 6 second transaction processing time for our customers. The payment solutions employed by the company have continued to prove their worth in a cost effective manner.

We remain committed to the use of leading edge technology as a means of strengthening customer relationships and new product generation.

Telephone Operations

As reported elsewhere, the company has successfully managed a reduction in its call centre operations. We now offer odds to a manageable core of customers, well known to us, from whom we are able to deliver a satisfactory margin at considerably less cost than was previously the case.

We intend to continue with this fixed-odds operation at its current level of activity for the foreseeable future.



OPERATIONAL REVIEW

Euro Off-Track

This 50/50 partnership with US Off-Track Inc. has proved to be a technical success as we have demonstrated our ability, through the use of the Amtote Spectrum 'Super Hub', to accept wagers from B2C customers and then transmit these wagers to 'host' tracks, thus allowing customers to participate in global totalisator pools. We are also able to offer a similar service to B2B customers. In addition, we successfully trialled our ability to transmit live pictures from Irish tracks into the United States during the Irish Greyhound Derby held in September 2002. The potential of this offering is demonstrated by the hub's ability to handle 29 million bets per hour and host up to 50 betting communities.

However, progress measured by customer account opening and activity, and the establishment of business-to-business relationships has been slower.

Our current focus therefore is to exploit the potential afforded by our ability to 'co-mingle' wagers into 54 thoroughbred, greyhound, harness and Jai Alai tracks in the USA and Ireland, 20 of which are on an exclusive basis. We are concentrating our efforts on building up relationships both with content providers and with outlets which have access to content, but which are unable to participate directly in host track pools.

An example of the former is our recent collaboration with Gaming Insight Plc who own GoBarkingMAD Ltd, a greyhound information site that uses the Sky platform to offer live greyhound races to its viewers. Under this short-term agreement, which we hope to extend and use as a model for further agreements with providers, GoBarkingMAD viewers have had access to our exclusive Irish greyhound racing content from Shelbourne Park and Harold's Cross. The aim is that viewers, who can currently participate in the host track pools via www.eurooff track.com will, in due course, be able to participate directly into the same pools via the interactive television platform and by telephone. In order to facilitate this we are developing a cash wagering interface into the Euro Off-Track tote hub mentioned above which, in addition to the access it will give betinternet's customers to global pools, will provide all B2B partners with the ability to 'co-mingle' wagers and participate directly in the pools of host tracks.

An example of how we intend to use the hub technology to develop B2B relationships is our proposed venture with Artax Gaming Consultants Inc of Oklahoma, by which Artax will forward wagers placed by its customers to Euro Off-Track for onward transmission and participation in event pools.

Despite its slow progress, the board continues to see great potential for this operation, which offers access to much larger pools and, therefore, dividends, to customers and a risk-free revenue stream to betinternet.

ANTI MONEY LAUNDERING

The company is located in a well-regulated jurisdiction, which supports the use of the Internet for business transactions both locally and on a global basis.

We support our Government's efforts to ensure that customers can transact with Isle of Man based companies with the utmost confidence. On our part, we aim to ensure that we will only transact with customers of integrity. Accordingly, under the direction of Harley Corkill, one of our non-executive directors, and with external expert support, we have committed to a programme of continuing education for all staff against the threat of money laundering.

THE FUTURE

betinternet's ambition is to establish itself as a respected, integrated, e-gaming company, operating on a global basis. The board believes that the ingredients which will drive market growth are still in place and the company has the management strength and experience to deliver that ambition.

The immediate aim is to achieve consistent monthly profit and cash generation. This will be achieved by concentrating on growing the core Internet based sportsbook to achieve critical mass and by establishing a small number of key relationships for our tote operations.

Growth can be achieved organically by the careful targeting of marketing spend, but could be aided by opportunistic acquisitions or joint ventures.

The achievement of critical mass will allow expansion into new gaming activities and into new territories such as Latin America, Australasia and Canada. We will continue to monitor and review our options in relation to both the U.S.A. and U.K.

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 May 2002.

ACTIVITIES

The company holds a Betting Office Licence issued by the Isle of Man Government and has operated an international telephone betting service since October 1998 and an on-line Internet betting service since 17 March 2000. In order to avail itself of the preferential rate of betting duty applicable to "international telephone bets" the company undertook not to accept bets from persons resident either in the Isle of Man or the United Kingdom. Following changes in the United Kingdom duty regime, these restrictions were relaxed from April 2001 onwards so that the company now accepts bets from persons resident in the United Kingdom, but still cannot accept bets from Isle of Man residents. The company's licence is renewable annually with the next renewal due at 31 May 2003.

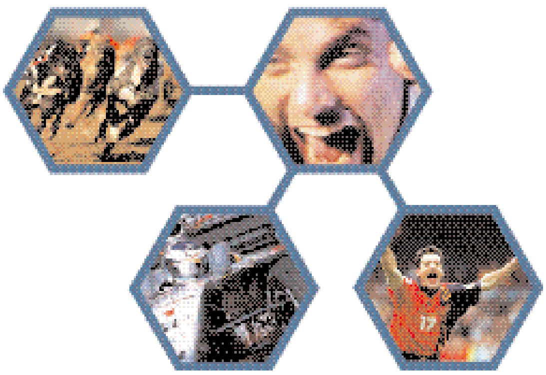
RESULTS AND DIVIDENDS

The financial results are shown on pages 14 to 31. The directors do not propose the declaration of a dividend (2001: £nil). The loss for the year has been transferred to reserves.

POST BALANCE SHEET EVENTS

Under the terms of the subscription agreement referred to in note 12 on page 26, on 10 June 2002 8,000,000 new ordinary 1p shares were issued for a total cash consideration of £800,000. In addition, 2,000,000 bonus warrants were issued to subscribe for 1 new ordinary 1p share at 12p per share.

Also under the subscription agreement, within 12 months of the EGM held on the 10 December 2001 and conditional on there being no material breach of the warranties contained in the subscription agreement, subscriptions will be made for a further 8,000,000 new ordinary 1p shares issued at 10p per share, for a consideration of £800,000. At such time 2,000,000 bonus warrants will be issued to subscribe for 1 new ordinary 1p share at 12p per share.



DIRECTORS' REPORT

DIRECTORS

The present directors of the company are as set out on page 1. Changes to the board of directors since the publication of the previous annual report are as follows:

	Appointed	Resigned
M.L. Child	10 December 2001	
P.E. Doona	10 October 2002	
D.P. Craine		30 August 2002
P. M. Flanagan		30 August 2002

As at 31 May 2002 the directors' interests in the shares and share options of the company were as follows:

	Ordinary shares of 1p each		Options over ordinary shares of 1p each		Bonus warrants over ordinary shares of 1p each	
	2002 No.	2001 No.	2002 No.	2001 No.	2002 No.	2001 No.
V.E. Caldwell	15,864,967	15,633,500	300,000	300,000	2,102,508	-
M.L. Child	1,150,000	N/A	-	N/A	287,500	-
S.P. Graham	-	-	500,000	500,000	-	-
H. Corkill	21,600	21,600	100,000	100,000	5,400	-
W.D. Mummery	-	-	500,000	500,000	-	-
D P Craine (Resigned 30 August 2002)	200,000	200,000	100,000	100,000	50,000	-
P M Flanagan (Resigned 30 August 2002)	-	-	1,000,000	1,000,000	-	-

The exercise price of the options is 1.0p per share in respect of those held by W.D. Mummery and 23.15p in respect of other directors.
No changes to directors' interests have occurred since 31 May 2002.
The directors had no beneficial interests in the shares of any of the company's subsidiaries.
P.E. Doona and M.L. Child were appointed to the board following the last annual general meeting and accordingly stand for re-election.
In accordance with the Articles of Association, H. Corkill retires by rotation and, being eligible, offers himself for re-appointment.

Directors Liability Insurance

The company does not maintain insurance cover for directors liability in relation to the group, however it is proposed such cover will be obtained following the publication of this Report.

DIRECTORS' REPORT

SUBSTANTIAL INTERESTS

In addition to directors' interests, the company had been advised on 11 November 2002 of the following notifiable shareholdings in excess of 3%:

	%	Number of Ordinary Shares
Burnbrae Limited	16.10	17,500,000
Pershing Keen Nominees Limited a/c CACLT	13.81	15,015,068
Mill Properties Limited	12.23	13,293,500
Jennifer Caldwell	4.54	4,937,600
Diplomat Trust Company Limited	4.14	4,500,000

Jennifer Caldwell is a sister of a director of the company, V E Caldwell.
Shares held by Diplomat Trust Company Limited are held for the benefit of Caldwell family members and trusts, whilst the shares held by Mill Properties Limited represent a family related shareholding of the Caldwell family.

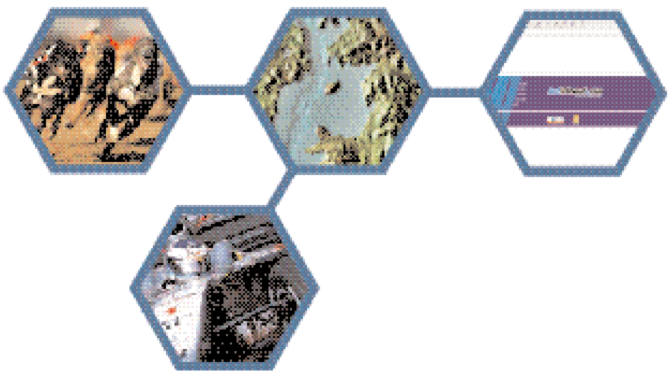
SUPPLIER PAYMENT POLICY

It is group policy to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based upon the timely receipt of an accurate invoice.

AUDITORS

KPMG were appointed as auditors by the directors during the year. Subsequent to the period-end KPMG have indicated that a limited liability company, KPMG Audit LLC, is to assume responsibility for certain aspects of their audit business. Accordingly, KPMG have resigned and the directors have appointed KPMG Audit LLC in their place. KPMG Audit LLC being eligible, has expressed its willingness to continue in office in accordance with Section 12(2) of the Isle of Man Companies Act 1982.

Approved by the board of Directors
and signed on behalf of the board D.P. Craine - Secretary 11 November 2002



CORPORATE GOVERNANCE

In June 1998 the Hampel Committee and the London Stock Exchange published the Combined Code on corporate governance. This combines the Cadbury Code on corporate governance, the Greenbury Code on directors' remuneration and new requirements arising from the findings of the Hampel Committee. The Combined Code contains recommendations for best practice focusing on control and reporting functions of the board.

Although the company's securities have been admitted on to the Alternative Investment Market and the company is not required to comply with the Combined Code, the board is committed to ensure that betinternet complies with the principles of good corporate governance. In doing so the board monitors the company's established procedures and continues, so far as possible, to comply with the Code to the extent that it is appropriate for the size and stage of development of the company.

The board has established audit and remuneration committees and has recently established a nominations committee comprising the chairman and the non - executive directors. The nominations committee will seek to appoint a non executive chairman who is expected to be appointed to the audit and remuneration committees. The appointment of a non executive chairman would allow for the separation of the role of chairman and managing director.

The audit committee, at present comprises Mr H Corkill (Chairman) and Mr M.L. Child. The Finance Director attends meetings at the invitation of the committee. The role of the committee is to assist the board in discharging its responsibilities for accounting policies, internal controls and financial reporting.

The remuneration committee, presently comprising Mr M.L. Child (Chairman) and Mr H. Corkill, recommends to the board terms and conditions, including annual remuneration, for executive directors and senior management. Mr V.E. Caldwell attends meetings at the invitation of the committee, but does not participate in the determination of his own remuneration which is set following discussion with the executive directors.

The company is incorporated in the Isle of Man and complies only with the requirements of that jurisdiction regarding the disclosure of directors' remuneration. Details of directors' share options are included in the directors' report.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and the group as at the end of the financial period and of the profit or loss of the group for that period. In preparing those 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 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 and the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Acts 1931 to 1993. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and the group and to prevent and detect fraud and other irregularities.

REPORT OF THE INDEPENDENT AUDITORS, KPMG AUDIT LLC, TO THE MEMBERS OF betinternet.com plc

We have audited the financial statements on pages 14 to 31.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 12, this includes responsibility for preparing the financial statements in accordance with applicable Isle of Man law and United Kingdom Accounting Standards. Our responsibilities, as independent auditors, are established in the Isle of Man by statute, the Auditing Practices Board, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Acts 1931 to 1993. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

Basis of opinion

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

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

Going concern

In forming our opinion, we have considered the adequacy of the disclosures in note 1 to the financial statements concerning the basis on which the financial statements have been prepared. Whilst we consider that this matter should be drawn to your attention, our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 May 2002 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Acts 1931 to 1993.

KPMG Audit LLC, Chartered Accountants — 13 November 2002
Heritage Court, 41 Athol Street, Douglas, Isle of Man IM99 1HN.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year Ended 31 May 2002

	Note	2002 £	2001 £
Turnover including share of joint venture			
Betting stakes received	2		
Internet		38,672,608	8,985,227
Telephone		13,953,019	39,551,612
Pari Mutuel		384,776	–
		53,010,403	48,536,839
Less share of joint venture turnover		(384,776)	–
Total group turnover		52,625,627	48,536,839
Cost of sales			
Winnings paid and bets laid off	2	(49,626,900)	(47,194,317)
Betting duty paid	2	(130,841)	(146,430)
Gross profit		2,867,886	1,196,092
Administration expenses		(4,560,419)	(3,579,270)
Group operating loss	3	(1,692,533)	(2,383,178)
Share of operating loss in joint venture		(306,178)	(8,169)
Total operating loss including share of joint venture		(1,998,711)	(2,391,347)
Interest receivable and similar income		17,477	71,507
Interest payable and similar charges	6	(2,877)	(384)
Loss on ordinary activities before and after taxation and retained loss for the year	4,14	(1,984,111)	(2,320,224)
Basic and diluted loss per share (pence)	5	(2.33)	(2.96)

The directors consider that all results derive from continuing operations for both the current and prior year. 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 year. This was also the case for the prior year.

CONSOLIDATED BALANCE SHEET
31 May 2002

	Note	2002 £	2002 £	2001 £	2001 £
FIXED ASSETS					
Intangible assets	7		498,088		377,739
Tangible assets	8		480,237		226,692
Investments in joint ventures	9				
- Share of gross assets		–		131,943	
- Share of gross liabilities		–		(130,943)	
- Share of net assets			–		1,000
Investments in associates	9		–		116,802
			978,325		722,233
CURRENT ASSETS					
Debtors	10		822,607		833,880
Cash at bank and in hand			1,850,421		947,013
			2,673,028		1,780,893
CREDITORS:					
amounts falling due within one year	11		(2,463,218)		(1,761,573)
NET CURRENT ASSETS			209,810		19,320
PROVISIONS FOR LIABILITIES AND CHARGES					
Investments in joint ventures	9				
- Share of gross assets		86,009		–	
- Share of gross liabilities		(391,187)		–	
- Share of net liabilities			(305,178)		–
NET ASSETS			882,957		741,553
CAPITAL AND RESERVES					
Called up share capital	12		1,006,870		783,296
Share premium	12,13		5,519,720		3,617,779
Profit and loss account	13		(5,643,633)		(3,659,522)
EQUITY SHAREHOLDERS' FUNDS	14		882,957		741,553

These financial statements were approved by the board of directors on 11 November, 2002

Signed on behalf of the board of directors

V E Caldwell Director	P E Doona Director

COMPANY BALANCE SHEET

31 May 2002

	Note	2002 £	2001 £
FIXED ASSETS			
Tangible assets	8	61,828	50,148
Investments	9	1,005	217,807
		62,833	267,955
CURRENT ASSETS			
Debtors	10	1,680,483	1,240,355
Cash at bank and in hand		1,789,496	885,353
		3,469,979	2,125,708
CREDITORS:			
amounts falling due within one year	11	(2,449,924)	(1,688,420)
NET CURRENT ASSETS		1,020,055	437,288
NET ASSETS		1,082,888	705,243
CAPITAL AND RESERVES			
Called up share capital	12	1,006,870	783,296
Share premium	12,13	5,519,720	3,617,779
Profit and loss account	13	(5,443,702)	(3,695,832)
EQUITY SHAREHOLDERS' FUNDS		1,082,888	705,243

These financial statements were approved by the board of directors on 11 November, 2002

Signed on behalf of the board of directors

V E Caldwell Director	P E Doona Director

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 May 2002

	Note	2002 £	2001 £
Net cash outflow from operating activities	15	(811,282)	(2,163,802)
Returns on investments and servicing of finance	16	14,600	71,123
Capital expenditure and financial investment	16	(770,927)	(278,176)
Cash outflow before use of liquid resources and financing		(1,567,609)	(2,370,855)
Financing	16	2,475,515	2,695
Increase/(Decrease) in cash in the year		907,906	(2,368,160)

Reconciliation of net cash flow to movement in net funds

	Note	2002 £	2001 £
Net funds at 1 June		925,919	3,294,079
Increase/(Decrease) in cash in the year		907,906	(2,368,160)
Cash inflow from net increase in debt		(350,000)	–
Net funds at 31 May	17	1,483,825	925,919

NOTES TO THE ACCOUNTS

Year ended 31 May 2002

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 1993.

The particular accounting policies adopted are described below.

Basis of preparation of the financial statements

The Group has incurred losses of £5,643,633 since the commencement of trading. As at 31 May 2002 the Group has net assets of £882,957, cash balances of £1,850,421 and borrowings of £366,596. The directors continue to implement a number of strategies designed to achieve profitability.

As described in note 23 on page 31, equity finance of £800,000 has been received subsequent to the year end, and further equity funding of £800,000 is due to become available to the Group during the year ended 31 May 2003, subject to satisfying warranties contained in the subscription agreement. These warranties are standard for an agreement of this type and the directors are not aware of any reason why they are not capable of being satisfied.

The directors have considered the adequacy of the cash resources and working capital available to the Group for the next 18 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, joint ventures and associated undertakings.

Joint ventures are accounted for using the gross equity method.

Shares in associated undertakings are accounted for using the equity method. The consolidated profit and loss account includes the group's share of pre-tax profits and attributable taxation of the associated undertakings based on the audited financial statements for the financial year. In the consolidated balance sheet, the investment in associated undertakings is shown at the group's share of the net assets of the associated undertakings.

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 within 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.

Prior to 1 January 2002 betting duty was payable to Customs and Excise at the rate of 0.3% of betting stakes received on international bets and 2% of betting stakes received on UK bets. Effective 1 January 2002 the company is liable to betting duty at 1.5% of net stake receipts in the case of international bets and 10% on net UK stake receipts. Net stakes are betting stakes received less winnings and bets laid off.

Foreign currency

Foreign currency balances 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 translations and conversions are included in the profit and loss account.

NOTES TO THE ACCOUNTS

Year ended 31 May 2002

1. ACCOUNTING POLICIES (CONT.)

Operating leases

Operating lease rentals are charged to 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.

Tangible fixed assets

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

Computer equipment and software	33 1/3 %
Fixtures and fittings and office equipment	33 1/3 %
Motor vehicles	33 1/3 %

Intangible assets

Development costs for the group are capitalised where, in the opinion of the directors, there is a benefit that will be derived from the expenditure incurred. The development costs are amortised on a straight-line basis over a 3 year period.

Deferred taxation

Deferred taxation is provided on 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.

NOTES TO THE ACCOUNTS

Year ended 31 May 2002

2. SEGMENTAL ANALYSIS

The company provides an international telephone and on-line Internet betting service from the Isle of Man. The directors are of the opinion that the markets to which its services are supplied do not differ substantially and accordingly may be treated as one so no geographical analysis is provided. The analysis between telephone and Internet betting is as detailed below:

Year ended 31 May 2002	Telephone £	Internet £	Total £
Betting stakes received	13,953,019	38,672,608	52,625,627
Winnings paid and bets laid off	(13,462,982)	(36,163,918)	(49,626,900)
Betting duty paid	(34,691)	(96,150)	(130,841)
Gross profit	455,346	2,412,540	2,867,886
Margin	3.26%	6.24%	5.45%

Year ended 31 May 2001	Telephone £	Internet £	Total £
Betting stakes received	39,551,612	8,985,227	48,536,839
Winnings paid and bets laid off	(38,669,986)	(8,524,331)	(47,194,317)
Betting duty paid	(119,322)	(27,108)	(146,430)
Gross profit	762,304	433,788	1,196,092
Margin	1.93%	4.83%	2.46%

3. OPERATING LOSS

Operating loss is stated after charging:

	2002 £	2001 £
Depreciation on tangible fixed assets	155,828	121,691
Amortisation of intangible assets	241,205	126,528
Auditors' remuneration - audit fees	35,250	41,125
- other services	-	38,775
Directors' fees	14,583	10,000
Operating lease rentals - other than plant and machinery	84,220	57,276

Under the provisions of the Isle of Man Companies Acts 1931 to 1993 there are no requirements to disclose any additional information regarding staff costs, staff numbers, or information regarding the remuneration of directors.

NOTES TO THE ACCOUNTS

Year ended 31 May 2002

4. TAX ON LOSS ON ORDINARY ACTIVITIES

No provision for tax is required for either the current or previous year, due to the level of losses incurred. Unprovided deferred tax amounted to an asset of £505,988 which is the result of accumulated tax losses less accelerated capital allowances.

5. 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 £1,984,111 (2001 : £2,320,224 loss) and the weighted average number of ordinary shares being the equivalent of 85,030,112 (2001 : 78,298,098) 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 potential ordinary shares would decrease the loss per share. The comparative diluted loss per share has been restated accordingly.

6. INTEREST PAYABLE

	2002 £	2001 £
Bank overdraft interest	-	384
Loan interest	2,877	-
	2,877	384

Interest on loan relates to a short term loan, which was repaid subsequent to the year end.

7. INTANGIBLE ASSETS

Group	Development Costs £
Cost	
At 1 June 2001	547,033
Additions	361,554
At 31 May 2002	908,587
Accumulated amortisation	
At 1 June 2001	169,294
Charge for the year	241,205
At 31 May 2002	410,499
Net book value	
At 31 May 2002	498,088
At 31 May 2001	377,739

NOTES TO THE ACCOUNTS

Year ended 31 May 2002

8. TANGIBLE ASSETS

Group	Computer equipment and software £	Motor vehicle £	Office equipment fixtures & fittings £	Total £
Cost				
At 1 June 2001	310,916	16,050	86,031	412,997
Additions	371,646	-	37,727	409,373
At 31 May 2002	682,562	16,050	123,758	822,370
Accumulated depreciation				
At 1 June 2001	161,065	4,012	21,228	186,305
Charge for the year	117,746	5,794	32,288	155,828
At 31 May 2002	278,811	9,806	53,516	342,133
Net book value				
At 31 May 2002	403,751	6,244	70,242	480,237
At 31 May 2001	149,851	12,038	64,803	226,692

Company	Computer equipment and software £	Motor vehicle £	Office equipment fixtures & fittings £	Total £
Cost				
At 1 June 2001	71,071	16,050	53,104	140,225
Additions	35,016	-	6,481	41,497
At 31 May 2002	106,087	16,050	59,585	181,722
Accumulated depreciation				
At 1 June 2001	71,071	4,012	14,994	90,077
Charge for the year	5,562	5,794	18,461	29,817
At 31 May 2002	76,633	9,806	33,455	119,894
Net book value				
At 31 May 2002	29,454	6,244	26,130	61,828
At 31 May 2001	-	12,038	38,110	50,148

NOTES TO THE ACCOUNTS
Year ended 31 May 2001

9. INVESTMENTS

Group	Investment in joint ventures £	Investment in associates £
At 1 June 2001	1,000	116,802
Investment in associate written off	-	(116,802)
Share of loss of joint ventures	(306,178)	-
At 31 May 2002	(305,178)	-

In view of the above deficit, the investment in joint ventures, which in the previous report and accounts was classified as a Fixed Asset, has been re-classified within provisions for liabilities and charges.

The Group's share of the assets and liabilities of the joint venture are as follows:

	2002 £	2001 £
Assets		
Fixed assets	47,620	131,943
Current assets	38,389	-
Liabilities		
Liabilities due within one year	(391,187)	(130,943)
Share of net (liabilities)/assets	(305,178)	1,000

Company	2002 £	2001 £
Technical Facilities & Services Limited	2	2
Downsview Limited	-	2
betinternetUK.com Limited	1	1
betinternet.com (Holdings) Limited	100,000	100,000
Fettercairn Limited	2	2
Off-Track Worldwide Limited	1,000	1,000
Mobile Gaming Solutions Limited	-	164,125
	101,005	265,132
Provision against Downsview Limited	-	(2)
Provision against investment in Mobile Gaming Solutions Limited	-	(47,323)
Provision against betinternet.com (Holdings) Limited	(100,000)	-
	1,005	217,807

NOTES TO THE ACCOUNTS

Year ended 31 May 2002

9. INVESTMENTS (CONT.)

Subsidiaries	Country of incorporation	Activity	Holding (%)
betinternetUK.com Limited	England	Holder of UK bookmaker's permit – non trading	100
betinternet.com (Holdings) Limited	Malta	Holding company	100
Fettercairn Limited	Isle of Man	Holding company	100
Technical Facilities & Services Limited	Isle of Man	Provision of Internet and telephone betting systems to group companies	100

During the year Downsview Limited, a wholly owned subsidiary, was dissolved.

Sub-subsidiaries

betinternet.com (Malta) Limited	Malta	Holder of Maltese betting licence - non trading	100
Fada International Limited	Hong Kong	Non-trading	100

betinternet.com (Holdings) Limited is wholly owned by betinternet.com plc. It in turn holds the entire issued share capital of betinternet.com (Malta) Limited which holds a Maltese issued betting licence. The company has not traded.

Other investments – joint venture

Off-Track Worldwide Limited	Isle of Man	Holding company	50
Euro Off-Track Limited Partnership	Guernsey	Design, development and operation of European Internet and interactive wagering totaliser hub	50

Off-Track Worldwide Limited is a joint venture between betinternet.com plc and US Off-Track Inc. Off-Track Worldwide Limited is the general partner in Euro Off-Track Limited Partnership, having a 1% interest, with the remaining 99% split equally between betinternet.com plc and US Off-Track Inc. Under the terms of the agreement between the parties covering the design, development and operation of the European internet and interactive wagering totaliser system, the betinternet.com plc group is obligated to spend up to US$ 1,000,000 in relation to the establishment, installation and operation of the system. At 31 May 2002 US$ 1,000,000 had been incurred by the Group under the agreement and this amount will be recoverable in priority to any distribution to either Off-Track Worldwide Limited or US Off-Track Inc. This investment is treated as a joint venture.

NOTES TO THE ACCOUNTS

Year ended 31 May 2002

10. DEBTORS

	The Group 2002 £	The Group 2001 £	The Company 2002 £	The Company 2001 £
Trade debtors	256,097	490,006	251,258	490,006
Amount due from group undertakings	-	-	935,936	488,100
Sundry debtor due from joint venture	537,782	261,885	490,385	227,595
VAT recoverable	28,728	-	-	-
Prepayments	-	81,989	2,904	34,654
	822,607	833,880	1,680,483	1,240,355

	The Group 2002 £	The Group 2001 £	The Company 2002 £	The Company 2001 £
Due within one year	284,825	571,995	254,162	524,660
Due after more than one year	537,782	261,885	1,426,321	715,695
	822,607	833,880	1,680,483	1,240,355

The sundry debtor represents amounts incurred by betinternet.com plc and a subsidiary in the establishment, installation and operation of the European Internet and interactive wagering totaliser system as referred to in note 9. The amount is recoverable under the terms of the agreement in priority to any distribution to the other parties of the joint venture.

The amount due from group undertakings is due from a subsidiary company and is unsecured, interest free and repayable on demand.

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group 2002 £	The Group 2001 £	The Company 2002 £	The Company 2001 £
Bank overdrafts	16,596	21,094	16,596	21,094
Trade creditors	1,203,410	903,370	1,282,140	929,268
Deferred income	78,729	222,051	78,729	222,051
Accruals and other creditors	814,483	441,764	722,459	350,882
Amount payable re investment in a joint venture	-	9,169	-	1,000
Loan	350,000	-	350,000	-
Amount payable re investment in an associated company	-	164,125	-	164,125
	2,463,218	1,761,573	2,449,924	1,688,420

Included in accruals and other creditors for both the company and the group are amounts payable in respect of income tax and national insurance of £55,994 (31 May 2001 : £44,807) relating to the payroll, and betting duty payable of £3,293 (31 May 2001 : £6,694).

The bank overdrafts carry variable interest rates and are repayable on demand.

The loan is unsecured, carries a fixed rate of interest and has been repaid since the year-end.

NOTES TO THE ACCOUNTS
Year ended 31 May 2002

12. SHARE CAPITAL AND SHARE PREMIUM

	2002 £	2001 £
Authorised		
185,000,000 (2001 : 120,000,000) ordinary shares of 1p each	1,850,000	1,200,000
Issued and fully paid		
100,687,027 (2001: 78,329,647) ordinary shares of 1p each	1,006,870	783,296

At the extraordinary general meeting of the company held on 10 December 2001, the authorised share capital of the company was increased to £1,850,000 comprising 185,000,000 ordinary shares of 1p each. Movements in the issued share capital and share premium account during the year ended 31 May 2002 are as follows:

	No.	Share capital £	Share premium £
At 1 June 2001 – 1p ordinary shares	78,329,647	783,296	3,617,779
Allotted and issued	22,357,380	223,574	1,901,941
At 31 May 2002 – 1p ordinary shares	100,687,027	1,006,870	5,519,720

Allotted during the year	No.	Nominal value £	Premiums £	Proceeds £
Exercise of warrants	1,819,280	18,193	200,120	218,313
Exercise of options	80,000	800	-	800
Other issues	20,458,100	204,581	2,228,714	2,433,295
Costs of issue		-	(526,893)	(526,893)
	22,357,380	223,574	1,901,941	2,125,515

During the year ended 31 May 2002, there were the following changes in the share capital of the company:

Under the terms of a subscription and shareholders agreement ("subscription agreement") dated 10 December 2001 investors agreed to subscribe for 30,000,000 new ordinary shares for a total consideration of £3,000,000. Upon completion of the agreement, 14,000,000 new ordinary shares were issued for a total cash consideration of £1,400,000. Of these shares, 1,150,000 new ordinary shares were issued to M.L. Child, a director of the company, for a consideration of £115,000. In addition 2,500,000 new ordinary shares were issued to the Chairman and members of his family, or companies nominated by them, for a consideration of £250,000. The consideration was settled by offset against a £250,000 loan payable by the company to those parties. A further 10,350,000 new ordinary shares were issued to other investors for a total cash consideration of £1,035,000.

The balance of £1,600,000 due to be received under the subscription agreement is to be received in two tranches. Of this amount £800,000 was received on 10 June 2002 and the final instalment of £800,000 is due to be received on 10 December 2002, subject to there being no material breach of the warranties contained in the subscription agreement (see also note 23).

NOTES TO THE ACCOUNTS

Year ended 31 May 2002

12. SHARE CAPITAL AND SHARE PREMIUM (CONT.)

On the 20 May 2002, the Chairman exercised warrants over 1,805,867 ordinary shares of the company at 12p per share, which raised £216,704 (gross) for the company. Of this total 1,354,400 ordinary shares formed part of the placing referred to below. The remainder of the ordinary shares from the exercise of the Chairman's warrants, and which were not placed, together with the share holdings then held by members of the Chairman's family, or companies related to them, and the directors, are subject to a lock-in arrangement until 31 December 2002 under the terms of the placing agreement and separate lock-in deeds.

Under the terms of a placing agreement dated 20 May 2002 ("the Placing") 7,812,500 ordinary 1p shares were placed for a total consideration of £1,250,000. The Placing comprised 6,458,100 new ordinary shares, which raised £1,033,296 (gross) for the company, and 1,354,400 existing issued ordinary shares derived from the exercise of certain warrants by the Chairman, as referred to above.

During the year ended 31 May 2002 a further 13,413 ordinary 1p shares were issued for a total consideration of £1,609 pursuant to the exercise of warrants in respect of 53,652 shares.

During the year ended 31 May 2002 an aggregate of 80,000 ordinary 1p shares were issued for a total consideration of £800 pursuant to the exercise of options in respect of 80,000 shares.

Options

Movements in share options during the year ended 31 May 2002 were as follows:

	No.	Option Price
At June 1 2001 - 1p Ordinary Shares	3,065,600	1p to 23.15p
Options exercised	(80,000)	1p
Options lapsed	(48,000)	23.15p
At 31 May 2002 - 1p Ordinary Shares	2,937,600	1p to 23.15p

All options were satisfied by cash payment.

The remaining share options have an exercise price ranging from 1.0p to 23.15p and all are exercisable during the period 10 years from the respective date of granting of the option. Options held by the directors of the company are disclosed in the directors' report.

Warrants

At an EGM of the company held on 10 December 2001, the company issued and allotted, by way of a bonus, an aggregate of 23,082,412 registered warrants to subscribe for 1 new ordinary share at 12p per share. The warrants were issued to all existing and new shareholders under the subscription agreement. Investors also have the right to receive additional warrants on the same basis in respect of their subscriptions within 6 and 12 months of the EGM described above. All warrants terminate 3 years from the date of the issue of the initial warrants.

The company also issued warrants over 312,500 ordinary shares to Williams de Broe plc with an exercise price of 16p, to be exercised no later than 5 years from May 2002.

Warrants held by the directors of the company are disclosed in the directors' report.

Summary:	No of ordinary shares	Subscription price (p)	Maximum Subscription (£)	Latest date of exercise
(a) Warrants in respect of subscription agreement				
Issued to shareholders	23,082,412			
Exercised during the year to 31 May 2002	(1,819,280)			
Balance outstanding at 31 May 2002	21,263,132			
Further subscription rights (see also note 23)	4,000,000			
	25,263,132	12	3,031,576	December 2004
(b) Warrants issued to Williams de Broe plc	312,500	16	50,000	May 2007

NOTES TO THE ACCOUNTS

Year ended 31 May 2002

13. RESERVES

Group	Share Premium £	Profit and loss account £
At 1 June 2001	3,617,779	(3,659,522)
Movement on share premium account (See note 12)	1,901,941	-
Retained loss for the year	-	(1,984,111)
At 31 May 2002	5,519,720	(5,643,633)

Company	Share Premium £	Profit and loss account £
At 1 June 2001	3,617,779	(3,695,832)
Movement on share premium account (See note 12)	1,901,941	-
Retained loss for the year	-	(1,747,870)
At 31 May 2002	5,519,720	(5,443,702)

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

At 31 May 2002	The Group		The Company	
	2002 £	2001 £	2002 £	2001 £
Loss for the financial year	(1,984,111)	(2,320,224)	(1,747,870)	(2,383,863)
Increase in issued share capital and share premium account	2,125,515	2,695	2,125,515	2,695
Net increase/(decrease) in shareholders' funds	141,404	(2,317,529)	377,645	(2,381,168)
Opening shareholders' funds	741,553	3,059,082	705,243	3,086,411
Closing shareholders' funds	882,957	741,553	1,082,888	705,243

NOTES TO THE ACCOUNTS
Year ended 31 May 2002

15. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002 £	2001 £
Operating loss	(1,692,533)	(2,383,178)
Depreciation and amortisation charges	397,033	248,219
Loss on disposal of leasehold property	-	1,541
Write (back) / down of associate	(47,323)	47,323
Decrease / (increase) in debtors	11,273	(630,074)
Increase in creditors	520,268	552,367
Net cash outflow from operating activities	(811,282)	(2,163,802)

16. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2002 £	2001 £
Returns on investments and servicing of finance		
Interest received	17,477	71,507
Interest paid	(2,877)	(384)
	14,600	71,123
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	409,373	149,678
Payments on development expenditure	361,554	247,239
Receipts from sales of tangible fixed assets	-	(118,741)
	770,927	278,176
Financing		
Issue of shares, including share premium (see note 12)	2,125,515	2,695
New borrowings	350,000	-
	2,475,515	2,695

17. ANALYSIS OF NET FUNDS

	At 31 May 2001 £	Cash Flow £	At 31 May 2002 £
Cash in hand and at bank	947,013	903,408	1,850,421
Bank overdraft	(21,094)	4,498	(16,596)
Other loans	-	(350,000)	(350,000)
	925,919	557,906	1,483,825

NOTES TO THE ACCOUNTS

Year ended 31 May 2002

18. 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 £78,729 (31 May 2001 : £222,051) of such stakes that had been received where the event to which they related was after the balance sheet date. Accordingly £78,729 (31 May 2001 : £222,051) has been reflected as deferred income in the balance sheet (see note 11).

19. CAPITAL COMMITMENTS

As at 31 May 2002 the group had no (31 May 2001: £nil) capital commitments.

20. OPERATING LEASE COMMITMENTS

At 31 May 2002, the group was committed to making the following payments during the next year in respect of operating leases:

	2002 £	2001 £
Leases which expire after five years	84,220	72,737

21. RELATED PARTY TRANSACTIONS

During the year ended 31 May 2002 an amount totalling £29,510 (31 May 2001 : £91,059) has either been paid by the group or reflected as payable, to a single supplier, Partingtons Limited. W D Mummery who is a director of betinternet.com plc is a 50% shareholder of that supplier.

Amounts totalling £60,226 (2001 : £63,204) were paid, or are reflected as payable, to Binchys, a firm of solicitors. One of the partners and a consultant of that firm are respectively a sister and brother of the Chairman of betinternet.com plc. The consultant has, since the 31 May 2001, ceased to act as a consultant to Binchys.

During the year amounts of £53,175 and £45,000 were paid to two brothers of the Chairman for services provided to the group in connection with consultancy services provided. For the prior year the amounts were £18,400 and £40,066. The amounts exclude any expenses reimbursed.

During the year £46,794 (2001 : £30,307) has been paid to Browne Craine Associates Limited for the provision of D.P. Craine's services as Finance Director and Company Secretary. D. P. Craine is a director of Browne Craine Associates Limited.

During the year ended 31 May 2002 amounts totalling £113,016 (2001 : £Nil) were paid to iRegent Corporate Finance Limited for services provided in acting as agent for the subscription of certain shares. M. L. Child who is a director of betinternet.com plc is a director of iRegent Corporate Finance Limited.

A loan of £350,000 (2001 : £Nil) was owed jointly to M.L. Child and Burnbrae Limited, a significant shareholder but not a related party, at 31 May 2002. The loan was repaid subsequent to the year end following the receipt of the second subscription from the subscription arrangements referred to in notes 12 and 23. M. L. Child is a director of the company.

Transactions in the company's share capital involving directors of the company are also referred to in note 12.

NOTES TO THE ACCOUNTS

Year ended 31 May 2002

22. 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 year end the Group's borrowings were at fixed interest rates. During the year, the average rate for fixed interest borrowings was 7%.

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.

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.

23. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Under the terms of the subscription agreement referred to in note 12, on 10 June 2002 8,000,000 new ordinary 1p shares were issued for a total cash consideration of £800,000. In addition, 2,000,000 bonus warrants were issued to subscribe for one ordinary 1p share at 12p per share.

Also under the subscription agreement, within 12 months of the EGM held on 10 December 2001 and conditional on there being no material breach of the warranties contained in the subscription agreement, subscriptions will be made for a further 8,000,000 new ordinary 1p shares, issued at 10p per share for a consideration of £800,000. At that time, a further 2,000,000 bonus warrants to subscribe for one new ordinary share at 12p per share will be issued.

24. PENSION ARRANGEMENTS

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

25. CONTROLLING PARTY AND ULTIMATE CONTROLLING PARTY

At 31 May 2002 the largest single shareholding in the company, which was held by V.E. Caldwell, represented 15.8% of the issued share capital. Other interests of the Caldwell family are disclosed in the Directors' Report on page 10.

As at 11 November 2002 the largest single shareholding in the company was held by Burnbrae Limited. This represented 16.1% of the issued share capital.

The directors are of the opinion that there is no single ultimate controlling party.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Fourth Annual General Meeting of the above named company will be held at The Claremont Hotel, 18/19 Loch Promenade, Douglas, Isle of Man, on 9th December, 2002 at 2.00 pm 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 31 May, 2002.
2. To re-elect as a director Mr. H. Corkill who retires by rotation and, being eligible, offers himself for re-election in accordance with the company's Articles of Association.
3. To elect as a director Mr. M.L. Child who was appointed since the date of the previous annual general meeting and offers himself for election in accordance with the company's Articles of Association.
4. To elect as a director Mr. P.E. Doona who was appointed since the date of the previous annual general meeting and offers himself for election in accordance with the company's Articles of Association.
5. To re-appoint 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 a Special Resolution

6. The directors of the company be and they are hereby generally and unconditionally authorised in accordance with Article 6(A) of the Articles of Association of the company (the Articles) to exercise all the powers of the company to allot, grant options over, offer or otherwise deal with or dispose of any relevant securities of the company (as defined in Article 6(G) of the Articles) up to an amount equal to but not exceeding the authorised but unissued share capital of the company for the time being, provided that this 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. The directors shall be entitled under such authority or under any renewal thereof to make at any time prior to the expiry of such authority an offer or agreement which would or might require relevant securities to be allotted, granted options over, offered or otherwise dealt with after such expiry and the directors may allot, grant options over, offer or otherwise deal with relevant securities pursuant to such offer or agreement as if the authority conferred hereby had not expired;

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

As a Special Resolution

7. 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 6 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 of £50,343.

   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.

   To transact any other business which may be brought before the Meeting.

   By order of the Board

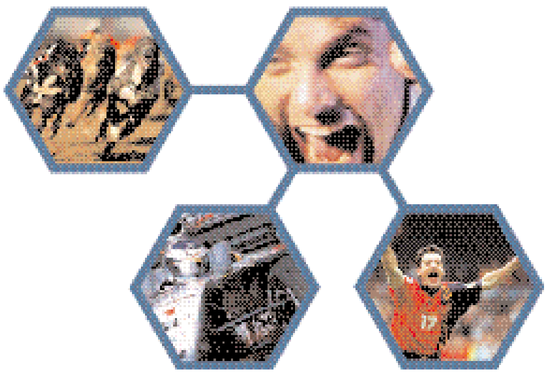
   David P. Craine
   Secretary

   Dated 11 November, 2002

   Registered Office: Burleigh Manor, Peel Road, Douglas, Isle of Man IM1 5EP.

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, Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA not later than 12 noon on 6th December, 2002.
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 week day (Saturdays and Isle of Man public holidays excluded) from the date of this notice until the date of the Meeting.



betinternet.com plc

CORPORATE INFORMATION WEBSITE

www.betinternet.com/investrelations/index.html

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