betinternet.com plc

annual report & accounts 2003

Welcome to betinternet.com

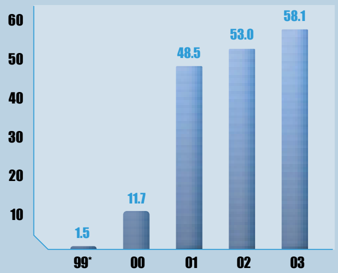
We offer customers the opportunity to place wagers — via the telephone or internet — on a wide variety of sports, through fixed odds and tote betting.

Typically, customers place bets on all the major sports — football, tennis, golf, formula one, US sports, international greyhound and horse racing. However, our huge range of wagering options reflects the true diversity of sports played throughout the globe. No matter what the customer wants to take a bet on, a German handball game for instance, we will endeavour to create the odds for them.

Contents

Highlights
The year at a glance

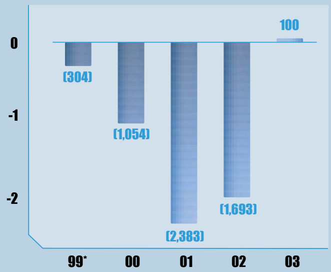
Turnover (£m)



Increased by 9.6% to £58.1 million

* 16 months

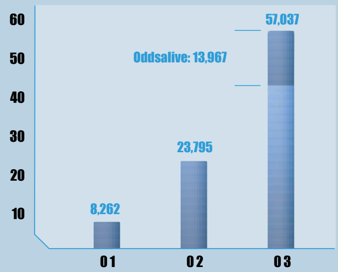
Group Operating Profit (£'000s)



Group operating profit achieved in 2003

* 16 months

Customer Accounts



140% increase, of which 81% organic

- **NEW ACQUISITION, Oddsalive**
  This acquisition brought with it 14,000 registered customers of which 4,000 had wagered in the 3 months prior to the acquisition. It considerably broadens our geographical reach and increases our customer base.
- **A year of considerable achievement**
  Our investment in technology, people and marketing has enabled us to achieve our maiden operating profit and to cope with significantly increased volumes of business.
- **Number of customers reaches 57,000 worldwide**
  Our customers now total 57,037 (2002: 23,795), of the increase 19,275 (81%) was organic growth.
- **Euro Off-Track increases global reach**
  Euro Off-Track is now able to offer wagering from approaching 100 tracks. The operation has made a positive start to the new financial year.

Chairmans' Statement

Denham Eke

"betinternet benefits from its location and regulation in the Isle of Man, a regulatory system that recognises the legitimacy of the internet as a business channel."

Introduction

In my first statement as Chairman I am pleased to be able to report a period of substantial progress towards creating a profitable internet business with a stable income base. We continue to seek opportunities to strengthen our position in the global online gaming market and the acquisition of Oddsalive in April 2003 was a first step towards this.

Overview of results

In the period to 1 June 2003, all of our key performance indicators were positive and the board is delighted to report that the group has achieved its maiden operating profit.

Turnover has increased 9.6% to £58.1m, (2002: £53.0m) although this masks a 30.3% (or £11.7m) rise in the turnover of our internet business.

The planned migration of business away from our telephone betting operation, which we started two years ago, has continued, and turnover in this area was reduced by 52% to £6.7m (2002: £14.0m).

Overall our margins have increased strongly from 5.45% to 7.29% and at the operational level we generated a maiden profit of £100,443 although after taking account of the group's share of loss in the Euro Off-Track joint venture and interest, there was a loss of £130,555 (2002: loss of £1.98m). The basic and diluted loss per share was 0.12p (2002: loss of 2.33p).

The directors do not recommend the payment of a dividend.

Strategy

The board's previously stated strategy of growing the business in the global internet and pari-mutuel gaming markets continues. We continue to seek acquisitions that will give the company a broader geographical reach. The acquisition of Oddsalive in April 2003, with its strong presence in the Scandinavian market, is a good example.

We also expect that following duty changes on the Isle of Man which will come into effect from 1 September 2003, we will be able to advertise the betinternet product range inside the UK from the autumn of 2003. The board is excited at the prospect of being able to actively participate in one of the largest gaming markets in the world.

In addition to seeking acquisition opportunities and new markets, we also continue to hunt for innovative and stimulating new wagering opportunities, some of which are described in the Operational and financial review which follows.

In this way we seek to enhance the gaming experience of our existing customers and attract new customers.

Regulation

Whilst betinternet benefits from its location and regulation in the Isle of Man, a regulatory system that recognises the legitimacy of the internet as a business channel, current regulation of online gaming services by many other governments around the world is very confused.

Recent moves against the global gaming service providers have been unhelpful and seem to come from diverse motivations. As a matter of good practice, we are constantly reviewing our payment systems, and we undertake detailed discussions with credit card providers, to minimise the opportunity for money laundering through the online gaming channel.

Board changes

In February, the company announced the resignation of Vincent Caldwell as Managing Director. Whilst the board acknowledged the significant contribution made by Vincent, it also recognised that the company had reached a size and diversity of operation which required a different management style, if it was to successfully take the business to the next level.

To facilitate the necessary change of management Jim Mellon assumed the Chairmanship for an interim period from 1 January 2003 to 4 April 2003 and Paul Doona was appointed Managing Director. Once this immediate transition was complete, Jim Mellon stood down as Chairman, and I was pleased to accept the request of the board to take his place as Chairman.

Also on 4 April 2003, Hugh Mac Giolla Ri was appointed a non-executive director, and has already made a positive contribution.

On behalf of shareholders, I would like take this opportunity to thank all our staff for the contribution they continue to make to the success of the business.

Prospects

We are encouraged by the significantly increased interest in the pari-mutuel opportunities we offer, particularly to the business-to-business fraternity. Wagers through our Isle of Man hub have exceeded US $2m per week for the first time and it is providing an increasingly positive base from which to facilitate a global wagering business. These opportunities, coupled with the underlying performance of the core sports book business, provide exciting prospects for the company.

Denham Eke

D H N Eke
Chairman

Full Page image: American sports provide the most popular wagering opportunity after soccer for betinternet's customers

Operating and financial review

Paul Doona, Managing Director

"Although the Far East remains the company's largest marketplace, the acquisition of Oddsalive has reduced the customer percentage from the Far East from 62.3% to 47%."

Introduction

In last year's report, we indicated why we remained confident of the company's continuing ability to grow and to achieve profitability. I am pleased to now report that in the period ended 1 June 2003, the business achieved its first operational profit.

The Euro Off-Track business model has been improved by reducing the costs and by finding new content providers and the establishment of our first B2B relationships, thereby increasing revenue. In the year ahead we are confident of further improved performance.

In April 2003 we acquired an internet gaming company called Oddsalive. This acquisition has enabled betinternet to extend its reach into the Scandinavian market.

Sean Graham
Trading Director

Review of Operations

We have continued to pursue our strategy of increasing the internet business area whilst reducing the dependence on telephone betting. Excluding turnover from our joint ventures, the internet operations represented 88.3% of turnover for the period. The pari-mutuel operations continue to grow and we have high hopes of the tote wagering platform, which is now available on the betinternet site. In addition, our overall margins have risen to 7.29% from 5.45%.

Internet operations

Turnover in our internet operations increased to £50.4m (2002: £38.7m), an uplift of 30.2%, year on year. The gross margins of 7.04% compare very favourably with 6.24% in the previous year and are comparable to our leading competitors.

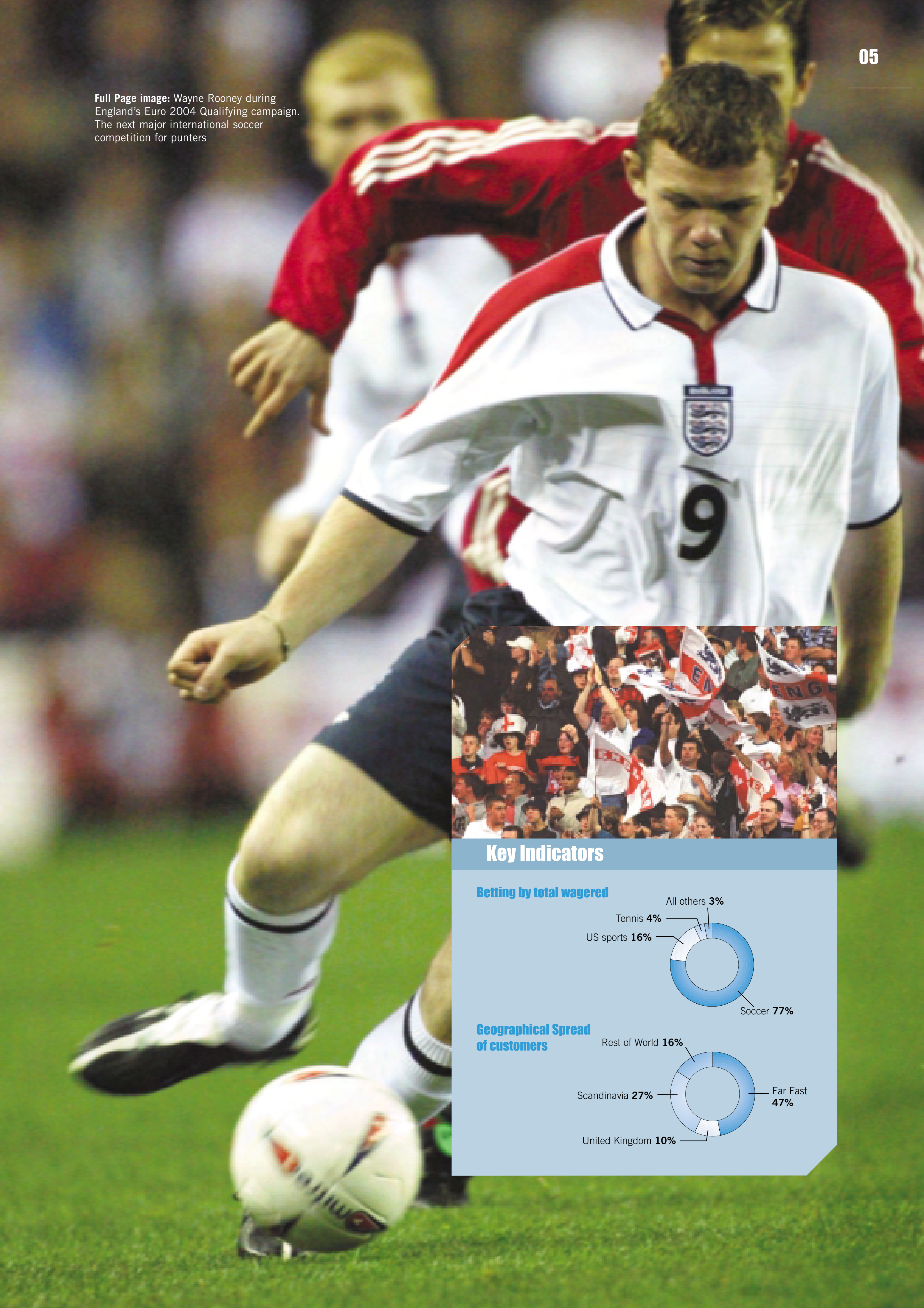
Our customer account base has seen strong growth to stand at 57,037 compared with 23,795 at the start of the period. Of the increase, 19,275 (81%) was due to organic growth, whilst the remaining 13,967 accounts came via the acquisition of Oddsalive.

Although the Far East remains the company's largest marketplace, the acquisition of Oddsalive has reduced the customer percentage from the Far East from 62.3% to 47%. This market continues, however, to produce good customer growth with 75% of our organic growth coming from the region. This growth largely followed interest in the World Cup and the company was able to attract 'follow-on' business at the start of the English soccer season. Overall the cost of acquiring customers has remained static.

One of the main aims of betinternet is to provide leisure gaming opportunities via the internet that attract the attention of 'fun' gamblers. During the year progress has been made in this area, as evidenced by lower bet sizes which in the period under review averaged £21.62, down from £31.26. Accordingly, the overall spend per customer has dropped in the Far East, as the table below shows:

	2003 £	2002 £
Far East	3,950	4,500
ROW	3,952	3,122
UK	1,560	1,305

The company continues to believe that regulation is the correct way forward, but has continued its policy of not accepting fixed odds wagers from US customers, thus recognising the current political realities of the USA. Whilst some jurisdictions permit gaming but not advertising, and others permit wagering but not payment by credit card, there is a significant level of market confusion on regulation. We seek to provide solutions to these problems allowing people who wish to wager to do so, whilst also providing secure methods for making deposits and payment. During the period, the government of Hong Kong prohibited the use of credit cards for gaming purposes, largely as an anti-money laundering measure. Within the region this measure has altered the balance of the business, so that Singapore has over taken Hong Kong as our fastest growing region.



Full Page image: Wayne Rooney during England's Euro 2004 Qualifying campaign. The next major international soccer competition for punters

Key Indicators

Betting by total wagered

All others **3%**
Tennis **4%**
US sports **16%**
Soccer **77%**

Geographical Spread of customers

Rest of World **16%**
Scandinavia **27%**
Far East **47%**
United Kingdom **10%**

Operating and financial review
Continued

> . . . the company will pay . . . the same rate of tax as the UK bookmakers, on UK bets, but will retain its comparative advantage in relation to duty paid of wagers in the Rest of the World. This will open the door to the UK market for your company.

I am delighted to report that the Isle of Man Treasury has provided a pragmatic solution to the issue of differential duty, paid by Isle of Man and UK bookmakers. As a result of paying Isle of Man rates of duty at a lower rate than that levied by the UK government, the Company was treated as an overseas bookmaker by the UK authorities, and prohibited from advertising in the UK, the third largest gaming market in the world. Following the passing of an amendment order to the 1970 Betting Act, the company will pay, from 1 September 2003, the same rate of tax as the UK bookmakers, on UK bets, but will retain its comparative advantage in relation to duty paid of wagers in the Rest of the World.This will open the door to the UK market for your company.

The mix of sport within our internet business still strongly favours football, with over 75% of our turnover coming from this sport. Whilst the English premier league attracts the most business, we have specialist expertise in all the major European leagues. US sports account for 16% of internet business. We have no plans to radically change this balance, but are likely to increase the spread of winter and Scandinavian sports.

Horse racing is something we would consider if our UK business expands and we are confident about our risk management capability. In the meantime our offering on horse racing will be limited to tote wagering on US content.

The technical section of this report describes the detailed development of a gateway via which B2Cs and B2Bs can access pari-mutuel content, previously only available to customers who separately registered with Euro Off-Track. We believe that this will provide yet another attractive customer offering, as well as supplying a healthy risk-free stream of income to betinternet and EOT. It also has obvious attractions as a B2B proposition for bookmakers and others with large customer bases.

Telephone operations

Our concentration on a core number of more serious gamblers appears to be paying off, with a margin after duty of 9.15% (2002: 3.26%) having been achieved. Our strategy of managing a reduction in turnover from £14.0m to £6.7m has produced an increase in gross margin, resulting in a contribution of £612,000 (2002: £455,000). Average revenue has increased marginally to £308.91 per slip (2002: £307.44), almost 15 times the average wager on the Internet, and confirming the more professional nature of the punter.

Due to the small number of telephone customers, we are able to provide a horse racing facility over the telephone, and this sport together with soccer account for the vast proportion of the business.

We currently have no intention of increasing the fixed odds element of our telephone operation. However, we can see the potential for increase in relation to our pari-mutuel operations. We are currently offering a voice service to 'high-rolling' customers of Euro Off-Track and this has been the engine behind the recent increase of turnover through the joint venture. We are considering the potential of offering a similar service to customers who access the pari-mutuel content now available to betinternet customers.

Euro Off-Track (EOT)

Despite a reduction in our share of loss to £239,000 (2002: £306,000), the result was clearly unsatisfactory. Accordingly, the following action has been initiated which we are confident will deliver profitability in the short-term:

We have:

(a) re-negotiated the joint-venture financing arrangements, at no cost, so that expenditure is now borne equally by the partners;

(b) significantly reduced the largest element of the cost base — the cost of broadcasting satellite pictures from the two Irish tracks, for which we provide an inter-track service. In addition, in April 2003 we suspended the experiment of transmitting those pictures into the United States until such time as we become convinced that there is viable business to be won;

(c) significantly increased activity through the call centre and over the Internet, in recent weeks, as our first B2B partners begin to drive turnover towards EOT and as familiarity with pari-mutuel wagering increases.

The benefits of (b) and (c) above, which have already had a marked effect on financial performance, will be felt in the current financial year.

Full Page image: Either through the betinternet 'gateway' or directly via Euro Off-Track, punters have the opportunity of wagering into the host pools of around 25 USA and Irish greyhound tracks.

Inset: Horse racing 'the sport of kings' is available to betinternet's telephone clients.

Key Indicators

	Average revenue per customer		Cost of acquiring customers	
	2003 £	2002 £	**2003 £**	2002 £
Far East	**3,950**	4,500	**33**	33
Rest of the World	**3,952**	3,122	**29**	30
United Kingdom	**1,560**	1,305	**19**	16

Operating and financial review
Continued

"Recognising that new rules must be adopted to deal with the Internet, the Government has adopted firm but fair rules to govern us and the online gaming market and we have been able to participate and respond to these developments."

As a result of the development of the pari-mutuel gateway mentioned above, there will be a direct impact on EOT, as a facilitator of global wagering. EOT will receive commission payments for providing the ability to commingle wagers and provide access directly in to host track pools, through its Amtote hub.

Euro Off-Track is moving towards becoming a tote service provider and provider of technological solutions. It will increasingly look to others (including betinternet) to provide customers and it will purely provide its services in return for a percentage of the 'handle'.

Regulatory environment

We believe shareholders, staff and government all benefit from the security of a well-regulated gaming environment and we therefore welcome it.

The Isle of Man Government has embraced technological advancement and has a well developed strategy to promote e-commerce. Recognising that new rules must be adopted to deal with the Internet, the Government has adopted firm but fair rules to govern us and the online gaming market and we have been able to participate and respond to these developments, whilst also recognising the size of our contribution to the Isle of Man Treasury.

We believe that this is a far more healthy approach than, for example, the USA, which is by far the largest market in the world, but which is serviced by unregulated off-shore operations who pay no tax.

We also positively embrace regulations designed to prevent anti-money laundering. One of our non-executive directors, Harley Corkill, maintains special interest in this area, and role of Anti-Money Laundering Officer for the company, has been retained at board level as one of my responsibilities. We also provide a programme of continuous anti-money laundering training for our staff.

In the company's opinion, jurisdictions which believe that outlawing the use of credit cards for leisure gaming purposes as a means of preventing money laundering, are misguided. This approach only helps promote alternative payment methods, some of which are patently less safe.

We will continue to seek and promote secure alternative payment methods whilst following the Isle of Man anti-money laundering regulations.

There have been a few high profile departures from the Isle of Man on-line gaming sector in recent months. We are very happy to remain within this jurisdiction and have recently reviewed the possibility of applying for a gaming licence. However, we have concluded that the business model for e-gaming is currently insufficiently attractive for it to be a worthwhile investment. This area will be kept under review.

Bill Mummery
Technical and operations Director

Technology

Last year we reported a milestone where we exceeded 10,000 bets in a single day during the World Cup. Our daily peak has now exceeded 17,000 bets from 35,000 unique sessions and 2.3 million hits, without any strain on our systems ,which again exceeded 99.9% availability to clients.

During the year we have further invested in resilience, redundancy and security for our technology platform, including the concurrent writing of all bets to a remote location. We have also developed a gateway platform that has enabled betinternet to offer co-mingled tote wagering. This will enable third party betting companies to participate with us in co-mingled tote wagering.

Euro Off-Track's portfolio now covers 75 tracks each weekend and almost 100 tracks in total. We have also established a call centre handling international tote wagering via the telephone.

At the end of the period under review we successfully integrated the Oddsalive business previously located in Malta into the betinternet platform in the Isle of Man.

Full Page image: Tiger Woods helping to drive betinternet's golf wagering business

Inset: Tennis is increasingly becoming a favourite wagering sport for European customers. Greg Rusedski here powers a back hand return.

Key Indicators

What they say about us . . .

"An attractive, fast-loading design with the advantage of viewing selections whilst browsing for prices . . . Covering an enormous range of sports markets . . . full coverage of soccer, US sports, and all the usual UK markets . . . an individual take on markets and terms offered . . . punters are most likely to be enticed by individual slices of value . . . if you bet on sport but don't have an account with betinternet.com you'll be regularly sacrificing best prices."

Racing Post

Operating and financial review
Continued

> Despite the increased activity, we were able to reduce our administration costs to £4.06m, a reduction of 11.0% from the previous year. This was largely due to a reduction in staff costs as we scaled back our telephone operations.

Financial Review

Overview

The group recorded a maiden operating profit of £100,433. This was on the back of an increase of 9.6% in turnover to £58.1m (2002: £53.0m). As commented upon elsewhere, this does, however, mask an increase of more than 30% in Internet turnover.

Gross profit increased considerably to £4.16m from £2.87m in 2002, not only because of the turnover increase, but also due to an improved margin percentage, which, after duty paid, was 7.29%, compared with 5.45% in the previous period.

Despite the increased activity, we were able to reduce our administration costs to £4.06m, a reduction of 11.0% from the previous year. This was largely due to a reduction in staff costs as we scaled back our telephone operations. As a percentage of turnover, administration costs were 7.1% compared with 8.7% in the previous period. The main costs were marketing — £0.6m, wages and salaries — £1.3m, information technology (including depreciation of hardware and software) — £0.8m, and bank charges — £0.5m.

We did not achieve an overall group profit as we absorbed a further share of loss, albeit reduced, from Euro Off-Track. However, as mentioned elsewhere, we are encouraged that this venture is showing signs of improved financial performance, and has started the current period positively.

Loss per share

The basic and diluted loss per share was 0.12p (2002: loss of 2.33p).

Cash Flow

In the period to 1 June 2003 the group absorbed an operating cash outflow of £995k. Of this amount, £654k represented funding for Euro Off-Track and, in addition, we provided £355k of working capital to the Oddsalive operation, EOT funding totalled £1.2m at the period end, and will be recovered as a first call on EOT's profits.

As far as non-operating activities were concerned, the group received £1.6m under the terms of a subscription agreement entered into in December 2001; repaid a loan of £350k and incurred net capital expenditure of £378k.

Cash balances, net of overdrafts, were therefore £1.77m at the period end, which compare with £1.83m at the previous year end.

Balance Sheet

The Group Balance Sheet was strengthened by the equity injection referred to above. Net worth increased to £2.3m from £0.9m at the previous year end.

As in previous years we have continued to invest in our technological infrastructure, with capital expenditure during the period amounting to £383k.

It has been decided to re-classify capitalised software costs, previously shown on the Balance Sheet as Intangible Assets, as Tangible Fixed Assets to correctly reflect their nature. This has no impact on the group's net assets or results for the period.

Treasury Management

The group's finance department manages its liquidity and foreign exchange risk. The department is risk adverse and does not enter into any speculative trades. The main control mechanism is to seek to match individual currency assets and liabilities. There are no debt instruments other than conventional trade creditors.

Because of the global nature of the business, profits, net assets and cash flows are all subject to exchange rate risk. The control mechanism mentioned above is designed to mitigate this risk.

Going Concern

The board has considered the further net loss incurred during the period and the impact that further losses could have on its cash resources. However, budgets for the 12 months ahead, which the board believes to be prudently based, predict cash surpluses considerably greater than the group's ongoing financial commitments. These budgets take no account of the recovery of £1.2m EOT funding referred to above. Accordingly, the board still considers it appropriate to continue to apply the going concern principle.

Acquisition

On 28 April 2003, the company acquired the entire share capital of Oddsalive Limited for a consideration of $1. The company also agreed to satisfy the obligations of Oddsalive to its customers and trade creditors, but certain arrangements with the vendors will ensure that the total consideration will not exceed $700,000 (£437,500).

An earn-out arrangement has been entered into with certain of the vendors, but this has been capped at $1m, measured by way of performance in the two years following acquisition and is further subject to the repayment of working capital injected by the company. The board believes it is too early to determine, with certainty, what the earn-out liability will be, and goodwill has been stated at £437,500, the 'capped' liabilities of the company.

In line with FRS10, impairment reviews will be carried out at each balance sheet date. Goodwill will be amortised over two years. The board considered that as the acquisition took place near to the period end, there was no impairment at the balance sheet date. It was also considered that the trading results and cash flow since acquisition were not material and have, therefore, not been separately disclosed.

Accounting Standards

In the absence of accounting standards in the Isle of Man, the company applies Accounting Standards published by the United Kingdom's Accounting Standards Board.

There were no new Financial Reporting Standards which applied to the group's financial statements for the first time in this period.

The Future

betinternet's continued aim is to become a respected, integrated, e-gaming company. We seek to build on our strength as a provider of technological solutions to organisations wishing to participate in global wagering.

We intend to broaden our reach and are looking forward to entering the UK marketplace. In addition, we are considering other European and American territories, and will continue to make further acquisitions where appropriate opportunities arise.

P. Doona.

P E Doona
Managing Director

Directors & Advisers

Directors

D H N Eke, Chairman
P E Doona, Managing Director
S P C Graham, Trading Director
W D Mummery, Technical and Operations Director
M L Child, Non-Executive Director
H Corkill, Non-Executive Director
H Mac Giolla Ri, Non-Executive Director

Secretary

D P Craine

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Auditors

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Chartered Accountants
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EC2M 2RP

Registrars

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Fenay Bridge
Huddersfield
HD8 0LA

D H N Eke, aged 51
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.

P E Doona, aged 51
Managing Director

Paul Doona was appointed to the board as Finance Director in September 2002 and became Managing Director in February 2003. 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 C Graham, aged 35
Trading 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 and Operations 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 People's 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 41
Non-Executive Director

Mark Child was until recently 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 18 years.

H Corkill, aged 60*
Non-Executive Director

Harley Corkill has taken a particular interest in the company's compliance with 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 Henry Bloom Noble Healthcare Trust.

H Mac Giolla Ri, aged 56
Non-Executive Director

Hugh Mac Giolla Ri is a graduate of University College, Dublin and is a fellow of the Institute of Chartered Accountants in Ireland.

After qualification Mr Mac Giolla Ri worked in Industry as a Financial Controller and Company Secretary. Moving into the profession in 1975 he founded the Dublin office of a Belfast-based practice.

From 1978 to date Mr Mac Giolla Ri has been a partner of a Dublin-based firm of Accountants and Registered Auditors, Mac Giolla Ri Broderick & Co.

The Audit and Remuneration Committees consist of all the Non-Executive Directors and are chaired by Denham Eke, Chairman of the Board.

* Senior independent non-executive director

Directors' Report

The directors present their annual report and the audited financial statements for the period ended 1 June 2003.

Principal activities

The group operates as a licensed sports bookmaker providing a worldwide telephone and internet service. In its joint venture the group operates a pari-mutuel service to individual and business customers, utilising the joint venture's totalisator facility in the Isle of Man.

Business review

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

During the period the group acquired Oddsalive Limited, an internet sportsbook operator specialising in Scandinavian sporting events. The operation was based in Malta, but subsequent to the period end has been relocated to the Isle of Man.

A more detailed review of the business, its results and future developments is given in the Chairman's statement on page 2 and the Operating and financial review on pages 4 to 11.

Proposed dividend

The directors do not propose the payment of a dividend.

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 34 days (2002: 65 days) purchases in trade creditors.

Directors and directors' interests

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

D H N Eke	Chairman (appointed 4 April 2003)
P E Doona	Executive (appointed 4 September 2002)
S P C Graham	Executive
W D Mummery	Executive
V E Caldwell	Executive (resigned 25 February 2003)
D P Craine	Executive (resigned 30 August 2002)
P M Flanagan	Executive (resigned 30 August 2002)
M L Child	Non-executive
H Corkill	Non-executive
H Mac Giolla Ri	Non-executive (appointed 4 April 2003)
J Mellon	Non-executive (appointed 1 January 2003; resigned 4 April 2003)

D H N Eke and H Mac Giolla Ri, who were appointed to the board since the last annual general meeting, retire in accordance with the articles of association and, being eligible, offer themselves for re-election. The directors retiring by rotation are S P C Graham and W D Mummery who, being eligible, offer themselves for re-election.

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

	Ordinary Shares		Options	
	Interest at end of period	**Interest at start of period or date of appointment**	**Interest at end of period**	**Interest at start of period or date of appointment**
D H N Eke	—	—	—	—
P E Doona	320,000	—	2,333,740	—
S P Graham	333,333	—	2,833,740	500,000
W D Mummery	—	—	2,833,740	500,000
M L Child	1,150,000	950,000	—	—
H Corkill	21,600	21,600	100,000	100,000
H Mac Giolla Ri	24,000	24,000	—	—

In addition to their interests shown above, M L Child had 287,500 warrants (237,500 at the beginning of the period) and H Corkill 5,400 warrants, throughout the period, to subscribe for ordinary shares at 12p per share.

Further details of the option issued to the executive directors during the year are contained in the Report of the remuneration committee on pages 20 to 23.

Substantial interests

On 31 July 2003 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	21.42	25,000,000
Pershing Keen Nominees Limited a/c CACLT	14.32	16,706,735
Vincent Caldwell	13.60	15,864,967
Mill Properties Limited	11.39	13,293,500
Diplomat Trust Company Limited	4.91	5,734,400
Jennifer Caldwell	4.23	4,937,600

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 700,000 ordinary shares in the company. Separately, Mr Mellon is also interested in 18,000 ordinary shares in the company.

Jennifer Caldwell is a sister of Vincent 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.

Directors' Report
Continued

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.

In addition to these resolutions, the Board 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.

All of the above special business of the annual general meeting is explained more fully in the accompanying letter from the Chairman.

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

During the year the auditors, KPMG, indicated that a limited liability company, KPMG Audit LLC, was to assume responsibility for certain aspects of their audit business. Accordingly, KPMG resigned and the directors 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.

By order of the board

D P Craine

Burleigh Manor
Douglas
Isle of Man
14 August 2003

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.

In June 1998 the Combined Code was issued by the London Stock Exchange. This Code is based on the report of the Hampel Committee and sets out Principles of Good Corporate Governance and Code provisions which consolidate the work of the earlier Cadbury and Greenbury Committees. Section 1 of the Code is applicable to companies.

Your board has also taken notice of two recent reports, that of the committee chaired by Derek Higgs on the role of non-executive directors and the Robert Smith Report on audit committees. Your board has sought to adopt the spirit of these reports in formulating its corporate governance policy.

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 three executive and four non-executive directors.

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

The Managing Director, in conjunction with his two executive colleagues, is responsible for co-ordinating the company's business and implementing strategy. The Managing Director currently also undertakes the role of Finance Director.

Mr H Corkill is the senior independent non-executive director. Shareholders are encouraged to contact Mr Corkill 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 20 to 23 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 and Mr W D Mummery attended several meetings with analysts and shareholders during the period ended 1 June 2003, 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 Operational Review on pages 4 to 11 together with the Chairman's Statement on page 2 and the Directors' Report on pages 14 to 16. These enable the board to present a balanced and understandable assessment of the company's position and

Corporate Governance
Continued

prospects. The directors' responsibilities for the financial statements are described on page 19.

Internal Control

The board is seeking to apply Principle D.2 of the Combined code and intends to establish an ongoing process for identifying, evaluating and managing the significant risks faced by the group. In doing so, it intends 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 it is intended to build this in to 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 will manage rather than eliminate the risk of failure to achieve business objectives.

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

- The review is intended to identify risks which are relevant to the group as a whole and will encompass all aspects of risk including operational, compliance, financial and strategic. A risk register is to be developed and will be updated on an ongoing basis. A strategy will be determined to control each of the significant risks.
- The board seeks to identify, monitor and control the significant risks to an acceptable level throughout the group. In order to do so it is intended that the Audit Committee, acting on behalf of the board, will review risk matters with the auditors 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

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 complies with the principles of the code at the date of this report.

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that 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 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 group and to prevent and detect fraud and other irregularities.

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 remuneration of the non-executive directors is considered by the executive directors and reflects the time which they commit to the company. Non-executive directors are no longer able to participate in any of the company's share option schemes and are not eligible to join the company's pension scheme.

Mr H Corkill, a non-executive director, was granted an option over 100,000 ordinary shares in September 2000. This is commented upon under share options below.

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 during the current year. Bonuses for the executive directors will be 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 will not be pensionable.

Given the nature of the discretionary annual bonus payments, which will be linked to the respective performance of the group, and the contribution of individual directors, the Committee believes this illustrates the relative importance placed on performance related remuneration.

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 three share option schemes, although no further options are to be issued under the

1998 Share Option Plan. 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.

H Corkill, a non-executive director, holds an option over 100,000 ordinary shares. The Committee is aware that a key recommendation of the report prepared by Derek Higgs ('Review of the role and effectiveness of non-executive directors') was that non-executive directors should not have share options. However, the Committee believes that in view of the historic nature of this option and its exercise price, it remains appropriate for Mr Corkill to continue to hold this option.

Pensions

The group intends to contribute to each executive director's personal pension plan in the current period.

Service Contracts

During the period under review, the service contracts of S P C Graham and W D Mummery provided for notice periods of twelve months by all parties. The service contract of P E Doona required six months' notice by all parties. It is intended that during the current period each of the executive directors will enter into service contracts requiring six months' notice by all parties.

Aggregate Directors' Remuneration

The total amounts for directors' remuneration were as follows:

		2003	2002
		£000	£000
Emoluments	— salaries, bonus and taxable benefits	**377**	410
	— termination payments	**34**	—
	— fees	**39**	15
Contributions to personal pension plans		**15**	15
Gains on exercise of share options		**—**	—
		465	440

Report of the remuneration committee
Continued

Directors' Emoluments

Details of the directors' emoluments are as follows:

	Basic salary £000	Fees £000	Termination Payment £000	Taxable benefits £000	**2003 Total £000**	2002 Total £000
Executive						
P E Doona (from 4/09/02)	70	—	—	15	**85**	—
S P C Graham	83	—	—	—	**83**	65
W D Mummery	87	—	—	8	**95**	90
V E Caldwell (resigned 25/02/03)	74	—	28	7	**109**	125
D P Craine (resigned 30/08/02)†	—	9	—	—	**9**	47
P M Flanagan (resigned 30/08/02)	21	—	6	27	**54**	98
Non-Executive						
D H N Eke (from 4/04/03)*	—	3	—	—	**3**	—
J Mellon (from 1/01/03 to 4/04/03)*	—	5	—	—	**5**	—
M Child	—	10	—	—	**10**	5
H Corkill	—	10	—	—	**10**	10
H Mac Giolla Ri (from 4/04/03)	—	2	—	—	**2**	—
Aggregate emoluments	**335**	**39**	**34**	**57**	**465**	440

† includes fees paid for company secretarial work. All paid to Browne Craine Associates Limited
* paid to Burnbrae Limited

Directors' Share Options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the company granted or held by the directors.

No options were exercised during the period under review.

Details of the options outstanding at 1 June 2003 are as follows:

Name of director	1 June 2002 (or subsequent date of appointment)	Granted in year	Exercised/ (lapsed) in year	**1 June 2003**	Exercise price	Date from which exercisable	Expiry date
P E Doona							
(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
S P Graham							
(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) 1998 Share Option Plan	500,000	—	—	**500,000**	23.15p	8 May 2003	8 May 2010
W D Mummery							
(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) 1998 Share Option Plan	500,000	—	—	**500,000**	1p	23 April 2002	23 April 2009
V E Caldwell	300,000	—	(300,000)	**—**			
H Corkill							
1998 Share Option Plan	100,000	—	—	**100,000**	23.15p	2 Sept 2003	2 Sept 2010
P M Flanagan	1,000,000	—	(1,000,000)	**—**			
	2,400,000	7,001,220	(1,300,000)	**8,101,220**			

D P Craine, who resigned from the board on 30 August 2002, holds an option over 100,000 ordinary shares at 23.15p, and which is exercisable between 2 September 2003 and 2 September 2010.

All options are exercisable not less than three years from the date of grant and not more than ten years from that date.

Granting of share options is not subject to fixed performance criteria.

The market price of the shares at 1 June 2003 was 5.62p and the range during the year was 3.62p to 18.0p.

Approval

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

D H N Eke

Chairman

14 August 2003

Report of the Independent Auditors

KPMG

Report of the independent auditors to the members of betinternet.com plc

We have audited the financial statements on pages 25 to 42.

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

The directors are responsible for preparing the annual report. As described on page 19, 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 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 group is not disclosed.

We read the other information contained in the annual report, including the corporate governance statement and the directors' remuneration report, and consider whether it is consistent with the audited 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 audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 1 June 2003 and of the loss of the group for the 12 month period then ended and have been properly prepared in accordance with the Companies Acts 1931 to 1993.

KPMG Audit LLC

Chartered Accountants
Heritage Court, 41 Athol Street, Douglas, Isle of Man, IM99 1HN
15 August 2003

Consolidated profit and loss account

for the period ended 1 June 2003

	Note	2003 £	2002 £
Turnover including share of joint venture			
Betting stakes received			
Internet	2	**50,374,502**	38,672,608
Telephone	2	**6,687,992**	13,953,019
Joint Venture		**1,016,187**	384,776
		58,078,681	53,010,403
Less share of joint venture turnover		**(1,016,187)**	(384,776)
Total group turnover		**57,062,494**	52,625,627
Cost of sales			
Winnings paid and bets laid off	2	**(52,825,992)**	(49,626,900)
Betting duty paid	2	**(76,463)**	(130,841)
Gross profit		**4,160,039**	2,867,886
Administration expenses		**(4,059,596)**	(4,560,419)
Gross operating profit/(loss)	3	**100,443**	(1,692,533)
Share of operating loss in joint venture		**(238,981)**	(306,178)
Total operating loss including share of joint venture		**(138,358)**	(1,998,711)
Interest	5	**7,983**	14,600
Loss on ordinary activities before and after taxation and retained loss for the year	6, 14	**(130,555)**	(1,984,111)
Basic and diluted loss per share	7	**(0.12p)**	(2.33p)

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 year. This was also the case for the prior year.

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

Consolidated balance sheet
as at 1 June 2003

	Note	2003 £	2003 £	2002 £	2002 £
Fixed assets					
Intangible assets	8		**437,500**		498,088
Tangible assets	9		**840,833**		480,237
			1,278,333		978,325
Current assets					
Debtors	11		**1,611,285**		822,607
Cash at bank and in hand			**1,851,900**		1,850,421
			3,463,185		2,673,028
Creditors: amounts falling due within one year	12		**(1,876,682)**		(2,463,218)
Net current assets			**1,586,503**		209,810
Provision for liabilities and charges					
Investment in joint venture	10				
Share of gross assets		**193,577**		86,009	
Share of gross liabilities		**(737,736)**		(391,187)	
Share of net liabilities			**(544,159)**		(305,178)
Net assets			**2,320,677**		882,957
Capital and reserves					
Called up share capital	13		**1,166,870**		1,006,870
Share premium account	14		**6,927,995**		5,519,720
Profit and loss account	14		**(5,774,188)**		(5,643,633)
Equity shareholders' funds	15		**2,320,677**		882,957

The financial statements were approved by the board of directors on 14 August 2003.

D H N Eke Director

P E Doona Director

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

Company balance sheets
as at 1 June 2003

	Note	2003 £	2002 £
Fixed assets			
Tangible assets	9	**68,124**	61,828
Investments	10	**1,006**	1,005
		69,130	62,833
Current assets			
Debtors	11	**2,600,886**	1,680,483
Cash at bank and in hand		**1,684,575**	1,789,496
		4,285,461	3,469,979
Creditors: amounts falling due within one year	12	**(1,428,190)**	(2,449,924)
Net current assets		**2,857,271**	1,020,055
Net assets		**2,926,401**	1,082,888
Capital and reserves			
Called up share capital	13	**1,166,870**	1,006,870
Share premium account	14	**6,927,995**	5,519,720
Profit and loss account	14	**(5,168,464)**	(5,443,702)
Equity shareholders' funds	15	**2,926,401**	1,082,888

The financial statements were approved by the board of directors on 14 August 2003.

D H N Eke Director

P E Doona Director

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

Consolidated cash flow statement
for the period to 1 June 2003

	Note	2003 £	2002 £
Net cash outflow from operating activities	16	**(994,803)**	(811,282)
Returns on investments and servicing of finance	17	**7,983**	14,600
Capital expenditure	17	**(377,508)**	(770,927)
Acquisition of subsidiary	17	**77,467**	—
Cash outflow before use of liquid resources and financing		**(1,286,861)**	(1,567,609)
Financing	17	**1,218,275**	2,475,515
(Decrease)/increase in cash in the period		**(68,586)**	907,906

Reconciliation of net cash flow to movement in net funds

	Note	2003 £	2002 £
Opening net funds		**1,483,825**	925,919
(Decrease)/increase in cash in year		**(68,586)**	907,906
Cash outflow/(inflow) from movement in borrowings		**350,000**	(350,000)
Closing net funds	18	**1,765,239**	1,483,825

Notes to the Accounts
for the period ended 1 June 2003

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. No such inconsistencies were identified.

The particular accounting policies adopted are described below.

Basis of preparation of the financial statements

As explained in the operating and financial review on page 11, 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, joint ventures and associated undertakings as at 1 June 2003.

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

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 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.

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

Notes to the Accounts
Continued

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.

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.

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

Development costs were previously classified as intangible assets. As explained on page 10 of the Operating and financial review, the directors decided to reclassify development costs as tangible fixed assets to correctly reflect their nature. There was no impact on the group's net assets or results for the 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, 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 Gross profit 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, and the business segments it operates in, do not differ substantially and accordingly no segmental analysis is provided. The analysis below illustrates the gross profit and margin of telephone and Internet betting.

Period ended 1 June 2003	**Telephone £**	**Internet £**	**Total £**
Betting Stakes Received	6,687,992	50,374,502	57,062,494
Winnings paid and bets laid off	(6,073,116)	(46,752,876)	(52,825,992)
Betting duty paid	(2,756)	(73,707)	(76,463)
Gross Profit	612,120	3,547,919	4,160,039
Margin	9.15%	7.04%	7.29%

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%

3 Group operating profit/(loss)

Group operating profit/(loss) is stated after charging:

	2003 £	**2002 £**
Auditors' remuneration:		
Group — audit	41,345	35,250
— other services	19,943	—
Company— audit	23,500	20,563
Depreciation of tangible fixed assets	544,319	397,033
Exchange losses	83,818	56,029
Operating lease rentals — other than plant and machinery	81,793	84,220

As stated in note 1 to the accounts on page 30, Development costs for the group have been reclassified as tangible fixed assets. Included in the depreciation charge for 2002 above, is a charge of £241,205 relating to the amortisation of these costs. In the period under review, the comparable charge was £291,903.

Notes to the Accounts
Continued

4 Staff numbers and cost

The average number of persons employed by the group (including directors) during the period was as follows:

	Number of employees 2003	2002
	43	51

The aggregate payroll costs of these persons were as follows:

	2003 £	2002 £
Wages and salaries	1,123,805	1,287,937
Social security costs	111,511	125,912
Other pension costs	15,000	18,000
	1,250,316	1,431,849

The remuneration of directors is disclosed in the Report of the remuneration committee on pages 20 to 23. The total emoluments of directors was £465,000 (2002: £440,000).

5 Interest

	2003 £	2002 £
Interest receivable and other income	7,983	17,477
Interest payable and similar charges:		
Loan interest	—	(2,877)
	7,983	14,600

6 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 £511,341 (2002: £505,988) which is the result of accumulated tax losses less accelerated capital allowances.

7 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 £130,555 (2002: £1,984,111) and the weighted average number of ordinary shares being the equivalent of 112,293,584 (2002: 85,030,112) 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.

8 Intangible assets

	Development costs £	Goodwill £	Total £
Group			
Cost			
At 1 June 2002	908,586	—	908,586
Transfer	(908,586)	—	(908,586)
Acquired	—	437,500	437,500
At 1 June 2003	—	437,500	437,500
Accumulated amortisation			
At 1 June 2002	410,498	—	410,498
Transfer	(410,498)	—	(410,498)
On goodwill acquired	—	—	—
At 1 June 2003	—	—	—
Net book value			
At 1 June 2003	—	437,500	437,500
At 31 May 2002	498,088	—	498,088

Development costs previously classified as intangible assets have been reclassified as tangible fixed assets to correctly reflect their nature. Cost and accumulated depreciation brought forward have accordingly been transferred to tangible fixed assets (see note 9 on page 34).

Capitalised goodwill arose on the acquisition of Oddsalive Limited. As the acquisition occurred near the period end, the board considered that no impairment had arisen at the period end. Further details of the acquisition are contained in the Operating and financial review on page 11 and in note 10 to the accounts on page 35.

Notes to the Accounts
Continued

9 Tangible assets

Group	Development costs £	Computer equipment and software £	Motor vehicle £	Office equipment, fixtures & fittings £	Total £
Cost					
At 1 June 2002	—	682,562	16,050	123,758	822,370
Additions	151,807	205,186	—	25,868	382,861
Disposals	—	—	(16,050)	—	(16,050)
Transfer	908,586	—	—	—	908,586
Arising on acquisition	—	—	—	29,318	29,318
At 1 June 2003	1,060,393	887,748	—	178,944	2,127,085
Depreciation					
At 1 June 2002	—	278,811	9,806	53,516	342,133
Charge	291,903	210,918	892	40,606	544,319
Disposals	—	—	(10,698)	—	(10,698)
Transfer	410,498	—	—	—	410,498
Arising on acquisition	—	—	—	—	—
At 1 June 2003	702,401	489,729	—	94,122	1,286,252
Net book value					
At 1 June 2003	357,992	398,019	—	84,822	840,833
At 31 May 2002	—	403,751	6,244	70,242	480,237

Company	Computer equipment and software £	Motor vehicle £	Office equipment, fixtures & fittings £	Total £
Cost				
At 1 June 2002	106,087	16,050	59,585	181,722
Additions	35,891	—	8,310	44,201
Disposals	—	(16,050)	—	(16,050)
At 1 June 2003	141,978	—	67,895	209,873
Depreciation				
At 1 June 2002	76,633	9,806	33,455	119,894
Charge	13,328	892	18,333	32,553
Disposals	—	(10,698)	—	(10,698)
At 1 June 2003	89,961	—	51,788	141,749
Net book value				
At 1 June 2003	52,017	—	16,107	68,124
At 31 May 2002	29,454	6,244	26,130	61,828

10 Investments

Group

	Investment in joint ventures £
At 1 June 2002	(305,178)
Share of loss of joint ventures	(238,981)
At 1 June 2003	(544,159)

In view of the continuing deficit, the investment in joint ventures is classified within provisions for liabilities and charges.

Company	Investment in subsidiary companies £	Investment in joint ventures £	Total £
At 1 June 2002	5	1,000	1,005
Acquisition	1	—	1
At 1 June 2003	6	1,000	1,006

Acquisition

The entire issued capital of Oddsalive Limited, an online sportsbook based in Malta and serving the Scandinavian market, was acquired on 28 April 2003 and was accounted for as follows:

	Book value on acquisition £	Fair value adjustments £	Fair value to the group £
Tangible fixed assets	29,318	—	29,318
Debtors	1,268	—	1,268
Cash	77,468	—	77,468
Creditors	(600,910)	55,357	(545,553)
	(492,856)	55,357	(437,499)
Goodwill	437,500	—	437,500
Consideration	(55,356)	55,357	1

Further details of the acquisition including the nature of the deferred consideration and earn-out arrangements, which have been capped at US$1m, are included in the Operating and financial review on page 11.

The summarised profit and loss accounts of Oddsalive Limited for the periods immediately prior to its acquisition by the group were:

	Period to 28 April 2003 £	Year ended 31 December 2002 £
Gross (loss)/profit/ from bookmaking	(48,796)	120,785
Overheads	(191,581)	(617,281)
Loss for the period/year before and after taxation	(240,377)	(496,496)

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

Notes to the Accounts
Continued

10 Investments (continued)

Subsidiaries	Country of incorporation	Activity	Holding (%)
Oddsalive limited	Malta	Operation of international internet betting service	100
betinternet UK.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
Sub-subsidiaries			
betinternet.com (Malta) Limited	Malta	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. 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 LLC. Off-Track Worldwide 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 LLC. 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 1 June 2003 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 LLC. This investment is treated as a joint venture.

11 Debtors

	The Group		The Company	
	2003 £	2002 £	2003 £	2002 £
Trade Debtors	262,577	256,097	257,570	251,258
Amount due from group undertakings	—	—	1,064,920	935,936
Sundry debtor from joint venture	1,159,757	537,782	1,191,717	490,385
VAT recoverable	5,872	28,728	—	—
Other debtors and prepayments	183,079	—	86,679	2,904
	1,611,285	822,607	2,600,886	1,680,483

11 Debtors (continued)

	The Group		The Company	
	2003	2002	2003	2002
	£	£	£	£
Due within one year	451,528	284,825	344,249	254,162
Due after more than one year	1,159,757	537,782	2,256,637	1,426,321
	1,611,285	822,607	2,600,886	1,680,483

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 10. 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.

12 Creditors: amounts falling due within one year

	The Group		The Company	
	2003	2002	2003	2002
	£	£	£	£
Bank overdrafts	86,661	16,596	34,488	16,596
Trade creditors	1,343,661	1,203,410	1,087,813	1,282,140
Deferred income	46,752	78,729	29,037	78,729
Accruals and other creditors	399,608	814,483	276,852	722,459
Loan (unsecured)	—	350,000	-	350,000
	1,876,682	2,463,218	1,428,190	2,449,924

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 £26,167 (2002: £55,994) relating to the payroll, and betting duty payable of £6,400 (2002: £3,293).

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

The unsecured loan which was repaid during the period carried a fixed rate of interest.

Notes to the Accounts
Continued

13 Share Capital

Authorised

	2003 £	2002 £
185,000,000 (2002: 185,000,000) ordinary shares of 1p each	1,850,000	1,850,000
Allotted, issued and fully paid		
At 1 June 2002: 100,687,027 ordinary shares of 1p each	1,006,870	783,296
Issued under the terms of subscription agreement	160,000	140,000
Exercise of warrants	—	18,193
Exercise of options	—	800
Other issues	—	64,581
At 1 June 2003: 116,687,027 ordinary shares of 1p each	1,166,870	1,006,870

During the period ended 1 June 2003 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, certain investors, including M L Child, a director of the company, 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 consideration of £1,400,000.

The balance of £1,600,000 was received in two tranches during the period following the issue of 16,000,000 new ordinary shares.

Options

Movements in share options during the period ended 1 June 2003 were as follows:

	No.
At 1 June 2002 — 1p Ordinary Shares	2,937,600
Options lapsed	(1,408,000)
Options granted	7,801,220
At 1 June 2003 — 1p Ordinary Shares	9,330,820

Details of options at 1 June 2003 were as follows:

	Price per share	Options granted	Exercisable between
1998 Share Option Plan	1p	80,000	June 2001 and June 2008
1998 Share Option Plan	1p	500,000	April 2002 and April 2009
1998 Share Option Plan	3.25p	44,800	August 2002 and August 2009
1998 Share Option Plan	3.25p	44,800	September 2002 and September 2009
1998 Share Option Plan	23.15p	64,000	April 2003 and April 2010
1998 Share Option Plan	23.15p	500,000	May 2003 and May 2010
1998 Share Option Plan	23.15p	256,000	September 2003 and September 2010
1998 Share Option Plan	23.15p	40,000	December 2003 and December 2010
2000 USA Share Option Plan	10p	2,600,406	December 2003 and December 2012
2000 USA Share Option Plan	10p	2,600,406	December 2004 and December 2012
2000 Share Option Plan	12p	2,600,408	December 2005 and December 2012
		9,330,820	

Details of options held by directors are disclosed in the Report of the remuneration committee on page 23.

13 Share Capital (continued)

Warrants

Movements in share warrants during the period ended 1 June 2003 were as follows:

(a) Warrants in respect of subscription agreement dated December 2001	Subscription No.	Maximum price (p)	Latest date of subscription (£)	exercise
As at 1 June 2002 — 1p Ordinary Shares	21,263,132	12	2,551,576	December 2004
Issued as part of further subscription rights	4,000,000	12	480,000	December 2004
As at 1 June 2003 — 1p Ordinary Shares	25,263,132	12	3,031,576	
(b) Warrants issued to Williams de Broë Plc				
As at 1 June 2002 and 1 June 2003 — 1p Ordinary Shares	312,500	16	50,000	May 2007

14 Reserves

Group	Share Premium £	Profit and Loss Account £
At 1 June 2002	5,519,720	(5,643,633)
Premium on share issues, less expenses	1,408,275	—
Retained loss for the year	—	(130,555)
At 1 June 2003	6,927,995	(5,774,188)

Company	Share Premium £	Profit and Loss Account £
At 1 June 2002	5,519,720	(5,443,702)
Premium on share issues, less expenses	1,408,275	—
Retained profit for the year	—	275,238
At 1 June 2003	6,927,995	(5,168,464)

15 Reconciliation of movements in shareholders' funds

	The Group		The Company	
	2003 £	2002 £	2003 £	2002 £
(Loss)/profit for the financial year	(130,555)	(1,984,111)	275,238	(1,747,870)
Increase in issued share capital and share premium account	1,568,275	2,125,515	1,568,275	2,125,515
Net increase in shareholders' funds	1,437,720	141,404	1,843,513	377,645
Opening shareholders' funds	882,957	741,553	1,082,888	705,243
Closing shareholders' funds	2,320,677	882,957	2,926,401	1,082,888

Notes to the Accounts
Continued

16. Reconciliation of operating profit/(loss) to net cash outflow from operating activities

	2003 £	2002 £
Operating profit/(loss)	100,443	(1,692,533)
Depreciation and amortisation charges	544,319	397,033
(Increase)/decrease in debtors	(787,412)	11,273
(Decrease)/increase in creditors	(852,153)	520,268
Write back of associate	—	(47,323)
Net cash outflow from operating activities	(994,803)	(811,282)

17. Analysis of cash flows for headings netted in the cash flow statement

Returns on investments and servicing of finance	2003 £	2002 £
Interest received	7,983	17,477
Interest paid	—	(2,877)
	7,983	14,600
Capital expenditure		
Payments to acquire tangible fixed assets	(382,861)	(770,927)
Receipts from sale of tangible fixed assets	5,353	—
Net capital expenditure	(377,508)	(770,927)
Acquisition of subsidiary		
Cash consideration	(1)	—
Net cash acquired with subsidiary	77,468	—
	77,467	—
Financing		
Issue of new shares including share premium	1,568,275	2,125,515
(Repayment)/issue of borrowings	(350,000)	350,000
	1,218,275	2,475,515

18. Analysis of net funds

	At 31 May 2002 £	Cash Flow £	At 1 June 2003 £
Cash in hand and at bank	1,850,421	1,479	1,851,900
Bank overdraft	(16,596)	(70,065)	(86,661)
Other loans	(350,000)	350,000	—
	1,483,825	281,414	1,765,239

19 Contingent liabilities

(a) 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 £46,752 (2002: £78,729) 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 12).

(b) The group is currently involved in negotiations with Customs & Excise to agree a VAT liability for an earlier period, and against which an amount has been paid in these financial statements. The directors believe, based on professional advice available at the date of approval of these financial statements, that no further liability should be accrued in this matter. If negotiations were not successful, the group's liabilities would increase. Due to the commercial sensitivity of the matter, it is not practicable to provide an estimate of the financial effect.

20 Capital commitments

As at 1 June 2003, the group had no capital commitments (2002: £nil).

21 Operating lease commitments

At 1 June 2003, the group was committed to making the following payments during the next year in respect of operating leases:

	2003 £	**2002 £**
Leases which expire after five years	79,608	84,220

22 Related party transactions

During the period ended 1 June 2003 an amount totalling £9,270 (2002: £29,510) 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 £31,947 (2002: £60,226) were paid, or are reflected as payable, to Binchys, a firm of solicitors. One of the partners of that firm is a sister of Mr V E Caldwell, who resigned as a director of the company during the period.

During the period amounts of £5,796 and £31,428 were paid to two brothers of Mr V E Caldwell for services provided to the group in connection with consultancy services provided. For the prior year the amounts were £53,475 and £45,000. The amounts exclude any expenses reimbursed. The consultancy agreements were terminated during the period.

During the period £32,261 (2002: £46,794) was 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 period ended 1 June 2003 amounts totalling £34,805 (2002: £113,016) were paid to iRegent Corporate Finance Limited for corporate finance services. M L Child who is a director of betinternet.com plc was a director of iRegent Corporate Finance Limited during the period.

A loan of £350,000 owed jointly to M L Child and Burnbrae Limited, of which company D H N Eke is Managing Director, was repaid during the period.

Rental and service charge payments of £81,793 (2002: £84,220) were paid to Burnbrae Limited during the period.

Notes to the Accounts
Continued

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.

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 are, however, made on behalf of certain directors to contribute to their own personal pension arrangements.

25 Controlling party and ultimate controlling party

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

Notice of Meeting

NOTICE IS HEREBY GIVEN that the Fifth Annual General meeting of the above-named company will be held at The Claremont Hotel, 18/19 Loch Promenade, Douglas, Isle of Man, on 25 September 2003 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 1 June 2003.

2 To re-elect as a director Mr S P C Graham who retires by rotation and, being eligible, offers himself for re-election in accordance with the company's Articles of Association.

3 To re-elect as a director Mr W D Mummery who retires by rotation and, being eligible, offers himself for re-election in accordance with the company's Articles of Association.

4 To elect as a director Mr D H N Eke 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 elect as a director Mr H Mac Giolla Ri 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.

6 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

7 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

8 That the power conferred on the Directors of the Company to allot equity securities upon a disapplication of pre-emption rights by a special resolution which was passed at the Annual General Meeting of the Company held on 9 December 2002 and the said special resolution itself be renewed pursuant to the power provided by Article 8(C) of the Company's Articles of Association, that such renewal of authority and of the special resolution be for the exercise of that power in all respects in the same terms as originally conferred, and that such power shall expire at the conclusion of the next Annual General Meeting of the Company after the date of passing of this Resolution unless renewed in accordance with and subject to the provisions of Article 8 of the Company's Articles of Association, 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.

As an Ordinary Resolution

9 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 11,668,700;

(b) the minimum price that may be paid for the shares is 1 pence;

Notice of Meeting
Continued

(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.

As an Ordinary Resolution

10 That the Report of the remuneration committee be received and adopted.

By order of the Board

D P Craine

Secretary

Dated 14 August 2003

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 23 September 2003.

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.

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