betinternet.com

annual report
and accounts **2004**

Welcome to Betinternet.com plc

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.

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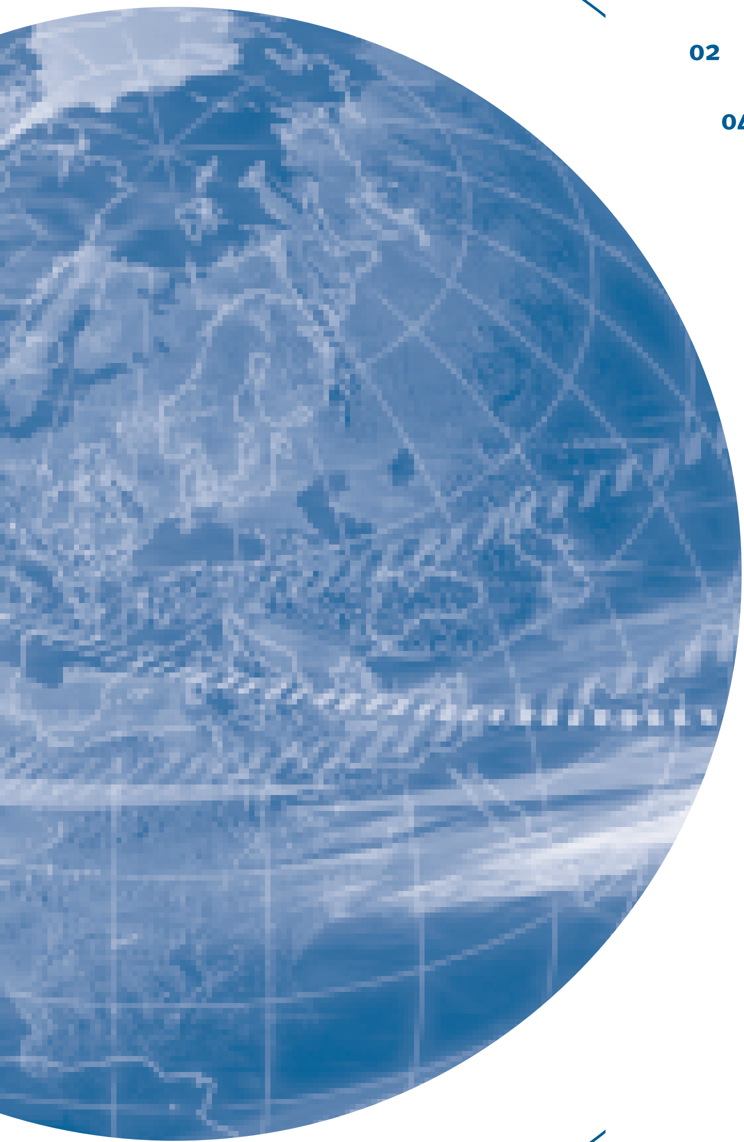
Contents



Chairman's Statement

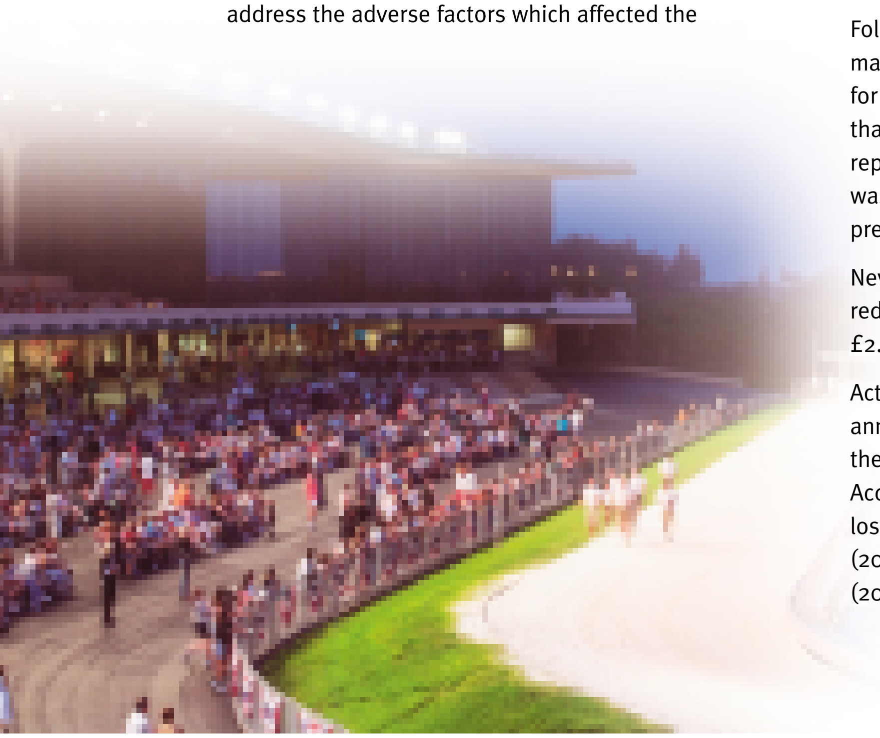
"The company now has a clear strategy for profitable growth"

Introduction

The period ended 30 May 2004 has been one of significant change at betinternet. The company now has a clear strategy for profitable growth. Following the year end, we have acquired the 50% of Euro Off Track not previously owned and have organised equity funding from Burnbrae Limited which will support the anticipated rapid growth of this business.

Euro Off-Track, the group's pari-mutuel business, improved its performance greatly during the year. As a result of this, we have decided to focus more financial and management resources on this business. The board believes that this operation, which provides a risk-free return to us as the promoter, has enormous potential and will provide a more stable form of earnings. I am pleased to report that turnover has continued to grow rapidly in the current financial year.

As previously reported, we took decisive action to address the adverse factors which affected the sportsbook business. In particular, we reduced risk and eliminated unprofitable markets. Costs have also been reduced to a level consistent with the underlying business. The impact of these measures will be more fully seen in the current financial year.



In line with the above strategy, the telephone wagering business was scaled further back during the year. The Internet now accounts for 92% of sportsbook turnover.

Overview of results

The performance of the pari-mutuel business, Euro Off-Track, was outstanding. Turnover increased from £1 million to £22.5 million during the year and the operation recorded its first net profit, £0.71m, of which the group's share was £0.35m (2003: share of loss £0.24m).

As reported above, this operation is now wholly owned by the group and will be fully consolidated with effect from 30 June 2004.

Following the remedial action referred to above, the margin from the sportsbook business recovered to 5.36% for the period as a whole. Although this was less than that achieved in the previous 52 weeks, 7.29%, it represented a margin of 6.8% in the second half which was in line with that achieved in the second half of the previous period.

Nevertheless, the fall in turnover combined with the reduction in margin resulted in a fall in gross profit to £2.44m (2003: £4.16m).

Action to reduce overheads by approximately £1m on an annualised basis was also undertaken; however, much of the impact of this will be felt in the current financial year. Accordingly, the group recorded a loss of £1.68m (2003: loss of £0.13m) before amortisation charges of £0.21m (2003: £nil), thus increasing the overall loss to £1.89m (2003: loss of £0.13m).

Strategy

The board's announcement of 19 October 2004 set out the results of the strategic review undertaken during the summer. The encouraging performance of Euro Off-Track has led the board to conclude that greater emphasis should be placed on its pari-mutuel business, and Euro Off-Track has continued to perform strongly since the acquisition of the outstanding 50% interest in June 2004.

The board believes that there are significant opportunities in exploiting its Isle of Man-based hub operations on an international basis. An example of this is our link with Phumelela Gold Enterprises of South Africa and the formation of a new joint venture company, Isle of Man Tote Limited. This company is intended to provide an international hub service for South African thoroughbred racing and, in due course, it is hoped will operate a totalisator and host pool betting on a variety of tote activities.

We will continue to operate the sportsbook in a manner that minimises our risk as much as possible and are seeking ways to make our offering more attractive in a manner consistent with this aim. To this end, we recently announced the imminent launch of an online casino in partnership with CasinoWebcam, the market leader in video streaming gaming technology. We are also looking at new initiatives to capitalise on our Far Eastern customer base.

Overall, the strategy is now clearly focused on making betinternet a leading technology solutions provider for the online gaming sector, maximising the company's market-leading technology to develop risk-free income streams to balance the unpredictable nature of fixed odds sports wagering.

Fund-raising

To assist the strategic review referred to earlier, Mill Properties Limited and Burnbrae Limited, vehicles for the Caldwell family and Mr J Mellon, provided additional funding by way of financial guarantees. These have now been extinguished, but are intended to be replaced by arrangements which, subject to shareholder approval, will lead to the issue of 25 million new ordinary shares in the company to Burnbrae Limited and which will raise approximately £900,000 after expenses. Details of these arrangements were explained more fully in a circular which was posted to shareholders on 10 December 2004.

As a result, the company will have the necessary funding in place to develop the Euro Off-Track business and to continue the sportsbook business on its new strategic course. The directors are confident of the future prospects that this provides for the business.

Board changes

Since the end of the financial period there have been changes to the board. Mr Jim Mellon has joined as a non-executive director. Mr Mellon, who is a beneficiary of Burnbrae Limited, brings a wealth of commercial experience to the board and is a most welcome addition. Mr William Mummery, Mr Mark Child and Mr Harley Corkill have all resigned from the board, and I thank them for their support. Mr Mummery continues to provide the company with technical consultancy in relation to the pari-mutuel business.

Summary

The directors strongly believe that the new strategic direction that they have set for the business provides major long-term opportunities for the business. I wish to thank all shareholders for their continued support and also the staff of betinternet for their endeavours on behalf of the business during the year.

Chairman

Directors and Advisers

D H N Eke, aged 52

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 52

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.

J Mellon, aged 47

Non-Executive Director

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

Mr Mellon joined the board in July 2004.

H Mac Giolla Ri, aged 57

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, Broderick Kelly Ring & Co.

Mr Mac Giolla Ri joined the board in April 2003.

Directors

D H N Eke, Chairman
P E Doona, Managing Director
H Mac Giolla Ri, Non-Executive Director
J Mellon, Non-Executive Director

Secretary

M Caldwell

Registered Office

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

Principal Bankers

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

Auditors

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

Nominated Adviser and Broker

Williams de Broë, PO Box 515
6 Broadgate, London, EC2M 2RP

Registrars

Capita IRG
Northern House, Woodsome Park
Fenay Bridge, Huddersfield, HD8 0LA

Directors' Report

The directors present their annual report and the audited financial statements for the period ended 30 May 2004.

Principal activities

The group operates as a licensed sports bookmaker providing a worldwide telephone and internet service. The group operates a pari-mutuel service to individual and business customers, utilising its totalizator facility in the Isle of Man. This was provided by way of a joint venture in the period under review.

Business review

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

A more detailed review of the business, its results and future developments is given in the Chairman's statement on pages 2 and 3.

Proposed dividend

The directors do not propose the payment of a dividend (2003: nil).

Policy and practice on payment of creditors

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

At the year end there were 36 days (2003: 34 days) purchases in trade creditors.

Directors and directors' interests

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

D H N Eke	Chairman
P E Doona	Executive
S P C Graham	Executive (resigned 25 October 2003)
W D Mummery	Executive (resigned 25 June 2004)
M L Child	Non-executive (resigned 25 June 2004)
H Corkill	Non-executive (resigned 25 June 2004)
H Mac Giolla Ri	Non-executive

Mr J Mellon was appointed to the board on 16 July 2004. He retires in accordance with the articles of association and, being eligible, offers himself for re-election. The director retiring by rotation is Mr P E Doona who, being eligible, offers himself for re-election.

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

Directors' Report continued

	Ordinary Shares		Options	
	Interest at end of period	Interest at start of period	Interest at end of period	Interest at start of period
D H N Eke	—	—	—	—
P E Doona	320,000	320,000	2,333,740	2,333,740
W D Mummery	—	—	2,833,740	2,833,740
H Mac Giolla Ri	24,000	24,000	—	—
S P C Graham (resigned 25 October 2003)	—	333,333	—	2,833,740
H Corkill	21,600	21,600	100,000	100,000
M L Child	—	1,150,000	—	—

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

Subsequent to the period end, J Mellon was appointed as a non-executive director and his interests are shown in the note below. Also subsequent to the period end, W D Mummery, H Corkill and M L Child resigned from the board.

Further details of the options issued to the executive directors are contained in the Report of the remuneration committee on pages 11 to 13.

Substantial interests

On 25 November 2004 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	20.81	26,100,000
Mill Properties Limited	10.60	13,293,500
Vincent Caldwell	10.33	12,964,967
Merrion Stockbrokers Nominees Limited a/c 900741	8.30	10,416,418
Vidacos Nominees	6.98	8,761,125
Pershing Keen Nominees Limited a/c CACLT	5.00	6,273,811
Diplomat Trust Company Limited	4.57	5,734,400
Jennifer Caldwell	3.94	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 950,000 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.

Annual General Meeting

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

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

In addition to the above resolutions, the board is also intending to seek approval to the introduction of a new share option scheme for executive directors and senior employees.

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

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

By order of the board

M Caldwell
Company Secretary
10 December 2004

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 relatively 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 one executive and three non-executive directors.

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

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

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

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

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

The board has a formal schedule of matters reserved for it and meets 11 times per year. It is responsible for overall group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks including legislative, jurisdictional and major liability management issues. The board approves the annual budget and the progress towards achievement of the budget. The board also considers employee issues and key appointments. It also seeks to ensure that all directors receive appropriate training on appointment and then subsequently as appropriate. All directors, in accordance with the Code, will submit themselves for re-election at least once every three years.

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

2. Directors' Remuneration

The Report of the Remuneration Committee is set out on pages 11 to 13 of the report and accounts.

3. Relations with Shareholders

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

The Managing Director attended several meetings with analysts and shareholders during the period ended 30 May 2004, at the time of the announcements of both the company's interim and final results.

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

4. Financial Reporting

The performance and financial position of the company are provided in the Chairman's Statement on page 2 and the Directors' Report on pages 5 to 7. These enable the board to present a balanced and understandable assessment of the company's position and prospects. The directors' responsibilities for the financial statements are described on page 4.

Internal Control

The board seeks to apply Principle D.2 of the Combined Code and believes it has controls in place which have established an ongoing process for identifying, evaluating and managing the significant risks faced by the group. In this regard, the board seeks to work closely with the company's auditors.

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

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

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

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

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

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

Audit Committee

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

Going Concern

As more fully explained in note 1 to the accounts on page 19, and after making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Internal Audit

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

Compliance Statement

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

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and 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 2004. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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.

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 forthcoming period. 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 it is intended that should shareholders approve the adoption of the 2005 Share Option Plan at the forthcoming Annual General Meeting, no further options will be issued under these schemes. Options are granted to executives periodically at the discretion of the Remuneration Committee. The grant of share options is not subject to fixed performance criteria. This is deemed to be appropriate as it allows the Committee to consider the performance of the group and the contribution of the individual executives and, as with annual bonus payments, illustrates the relative importance placed on performance related remuneration.

Pensions

The group intends to contribute to the Managing Director's personal pension plan in the forthcoming period.

Service Contracts

During the period under review, both of the service contracts of P E Doona and W D Mummery provided for notice periods of six months by all parties.

Report of the Remuneration Committee

continued

Aggregate Directors' Remuneration

The total amounts for directors' remuneration were as follows:

		2004 £000	2003 £000
Emoluments	— salaries, bonus and taxable benefits	**242**	377
	— termination payments	**53**	34
	— fees	**62**	39
Contributions to personal pension plans		**18**	15
		375	465

Directors' Emoluments

Details of the directors' emoluments are as follows:

	Basic salary £000	Fees £000	Termination payment £000	Taxable benefits £000	2004 Total £000	2003 Total £000
Executive						
P E Doona	110	—	—	12	**122**	85
W D Mummery	90	—	—	10	**100**	95
S P C Graham (resigned 25/10/03)	38	—	53	—	**91**	83
V E Caldwell (resigned 25/2/03)	—	—	—	—	**—**	109
D P Craine (resigned 30/8/02)	—	—	—	—	**—**	9
P M Flanagan (resigned 30/8/02)	—	—	—	—	**—**	54
Non-Executive						
D H N Eke*	—	20	—	—	**20**	3
J Mellon*	—	—	—	—	**—**	5
H Mac Giolla Ri	—	11	—	—	**11**	2
H Corkill	—	12	—	—	**12**	10
M L Child	—	19	—	—	**19**	10
Aggregate emoluments	**238**	**62**	**53**	**22**	**375**	465

* 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 30 May 2004 are as follows:

Name of director	1 June 2003	(Exercised/ lapsed) in year	30 May 2004	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
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
S P C 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
H Corkill						
(a) 1998 Share Option Plan	100,000	—	**100,000**	23.15p	2 Sept 2003	2 Sept 2010
	8,101,220	(2,833,740)	**5,267,480**			

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 30 May 2004 was 7.50p and the range during the year was 5.00p to 19.25p.

Approval

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

D H N Eke
Chairman
10 December 2004

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 15 to 30. 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 10, 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 2004. 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.

In forming our opinion, we have considered the adequacy of the disclosures in note 1 to the financial statements concerning the basis of preparation of the financial statements, and note 25 to the financial statements regarding the requirement for shareholder approval with respect to the additional equity financing for the company. Whilst we consider that this matter should be drawn to your attention, our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 May 2004 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 2004.

KPMG Audit LLC
Chartered Accountants
Heritage Court, 41 Athol Street, Douglas, Isle of Man, IM99 1HN
10 December 2004

Consolidated Profit and Loss Account

for the period ended 30 May 2004

	Note	Before Goodwill £000	Amortisation of Goodwill £000	2004 £000	2003 £000
Turnover including share of joint venture					
Betting stakes received					
Internet	2	**41,759**	–	**41,759**	50,375
Telephone	2	**3,735**	–	**3,735**	6,688
Joint venture		**22,513**	–	**22,513**	1,016
		68,007	–	**68,007**	58,079
Less share of joint venture turnover		**(22,513)**	–	**(22,513)**	(1,016)
Total group turnover		**45,494**	–	**45,494**	57,063
Cost of sales					
Winnings paid and bets laid off	2	**(43,004)**	–	**(43,004)**	(52,826)
Betting duty paid	2	**(53)**	–	**(53)**	(76)
Gross profit	2	**2,437**	–	**2,437**	4,161
Administration expenses		**(4,467)**	**(219)**	**(4,686)**	(4,060)
Group operating (loss)/profit	3	**(2,030)**	**(219)**	**(2,249)**	101
Share of operating profit/(loss) in joint venture		**354**	–	**354**	(239)
Total operating loss including share of joint venture		**(1,676)**	**(219)**	**(1,895)**	(138)
Interest		**1**	–	**1**	8
Loss on ordinary activities before and after taxation and retained loss for the period	5,13	**(1,675)**	**(219)**	**(1,894)**	(130)
Basic and diluted loss per share (pence)	6			**(1.62)**	(0.12)

All results derive from continuing operations.

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

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

Consolidated Balance Sheet

as at 30 May 2004

	Note	2004 £000	2004 £000	2003 £000	2003 £000
Fixed assets					
Intangible assets	7		**219**		437
Tangible assets	8		**620**		841
			839		1,278
Current assets					
Debtors	10	**851**		1,611	
Cash at bank and in hand		**444**		1,852	
		1,295		3,463	
Creditors: amounts falling due within one year	11	**(1,517)**		(1,876)	
Net current (liabilities)/assets			**(222)**		1,587
Provision for liabilities and charges					
Investment in joint venture	9				
Share of gross assets		**446**		194	
Share of gross liabilities		**(636)**		(738)	
Share of net liabilities			**(190)**		(544)
Net assets			**427**		2,321
Capital and reserves					
Called up share capital	12		**1,167**		1,167
Share Premium	13		**6,928**		6,928
Profit and loss account	13		**(7,668)**		(5,774)
Equity shareholders' funds	14		**427**		2,321

The financial statements were approved by the board of directors on 10 December 2004.

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 Sheet

as at 30 May 2004

	Note	2004 £000	2004 £000	2003 £000	2003 £000
Fixed assets					
Tangible assets	8		**93**		68
Investments	9		**1**		1
			94		69
Current assets					
Debtors	10	**2,107**		2,601	
Cash at bank and in hand		**413**		1,684	
		2,520		4,285	
Creditors: amounts falling due within one year	11	**(1,399)**		(1,428)	
Net current assets			**1,121**		2,857
Net assets			**1,215**		2,926
Capital and reserves					
Called up share capital	12		**1,167**		1,167
Share premium account	13		**6,928**		6,928
Profit and loss account	13		**(6,880)**		(5,169)
Equity shareholders' funds	14		**1,215**		2,926

The financial statements were approved by the board of directors on 10 December 2004.

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 ended 30 May 2004

	Note	2004 £000	2003 £000
Net cash outflow from operating activities	15	**(984)**	(995)
Returns on investments and servicing of finance	16	**1**	8
Capital expenditure and financial investment	16	**(345)**	(377)
Acquisition (including cash assumed)	16	**–**	77
Cash outflow before use of liquid resources and financing		**(1,328)**	(1,287)
Financing	16	**–**	1,218
Decrease in cash in the period		**(1,328)**	(69)

Reconciliation of net cash flow to movement in net funds

	Note	2004 £000	2003 £000
Opening net funds		**1,765**	1,484
Decrease in cash in the period		**(1,328)**	(69)
Cash outflow from movement in borrowings		**–**	350
Closing net funds	17	**437**	1,765

Notes to the Accounts

for the period ended 30 May 2004

1. **Accounting policies**

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

The particular accounting policies adopted are described below.

Basis of preparation of the financial statements

The group has incurred losses of £7,688,000 since the commencement of trading. As at 30 May 2004 the group has net assets of £427,000 and cash balances of £444,000. The directors continue to implement a number of strategies designed to achieve profitability.

As described in note 25, equity finance of £1m will be received, subject to shareholder approval, and when received will enable the group it to meet its liabilities as they fall due. The directors have prepared projected cash flow information for the next 12 months and are satisfied that the group has adequate resources to meet its obligations as they fall due. Although there can be no certainty in these matters, the directors have concluded that it is appropriate to prepare these financial statements on the 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 30 May 2004.

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.

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

Employee share schemes

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

Notes to the Accounts continued

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

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

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

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

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

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

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

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

Development costs	$33^1/_3\%$
Computer equipment and software	$33^1/_3\%$
Fixtures and fittings and office equipment	$33^1/_3\%$
Motor vehicles	$33^1/_3\%$

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

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

2 Segmental Analysis

Period ended 30 May 2004	Telephone £000	Internet £000	Total £000
Betting stakes received	**3,735**	**41,759**	**45,494**
Winnings paid and bets laid off	**(3,571)**	**(39,433)**	**(43,004)**
Betting duty paid	**(4)**	**(49)**	**(53)**
Gross profit	**160**	**2,277**	**2,437**
Margin	**4.28%**	**5.45%**	**5.36%**

Period ended 1 June 2003	Telephone £000	Internet £000	Total £000
Betting stakes received	6,688	50,375	57,063
Winnings paid and bets laid off	(6,073)	(46,753)	(52,826)
Betting duty paid	(3)	(73)	(76)
Gross profit	612	3,549	4,161
Margin	9.15%	7.04%	7.29%

3 Group operating (loss)/profit

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

	2004 £000	2003 £000
Auditors' remuneration:		
Group — audit	**39**	41
— other services	**12**	20
Company — audit	**33**	24
Depreciation of tangible fixed assets	**566**	544
Exchange losses	**56**	84
Operating lease rentals — other than plant and machinery	**98**	82

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	
	2004	2003
	49	43

The aggregate payroll costs of these persons were as follows:

	2004 £000	**2003 £000**
Wages and salaries	**1,209**	1,124
Social security costs	**122**	111
Other pension costs	**18**	15
	1,349	1,250

The remuneration of directors is disclosed in the Report of the remuneration committee on pages 11 to 13. The total emoluments of directors was £375,000 (2003: £465,000).

5 Tax on loss on ordinary activities

No provision for tax is required for either the current or previous period, due to the level of losses incurred. Unprovided deferred tax amounted to an asset of £645,000 (2003: £511,000) which is the result of accumulated tax losses less accelerated capital allowances.

6 Loss per share

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

Calculation of loss per share is based on losses of £1,893,941 (2003: £130,555) and the weighted average number of ordinary shares being the equivalent of 116,687,254 (2003: 112,293,584) ordinary 1p shares.

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

7 Intangible assets

	Goodwill £000
Cost	
At 2 June 2003 & 30 May 2004	**438**
Depreciation	
At 2 June 2003	—
Charge	219
At 30 May 2004	**219**
Net book value	
At 30 May 2004	**219**
At 1 June 2003	438

8 Tangible assets

Group	Development costs £000	Computer equipment and software £000	Office equipment, fixtures & fittings £000	Total £000
Cost				
At 2 June 2003	1,060	888	179	2,127
Additions	208	132	5	345
At 30 May 2004	**1,268**	**1,020**	**184**	**2,472**
Depreciation				
At 2 June 2003	702	490	94	1,286
Charge	265	237	64	566
At 30 May 2004	**967**	**727**	**158**	**1,852**
Net book value				
At 30 May 2004	**301**	**293**	**26**	**620**
At 1 June 2003	358	398	85	841

Company	Computer equipment and software £000	Office equipment, fixtures & fittings £000	Total £000
Cost			
At 2 June 2003	142	68	210
Additions	69	5	74
At 30 May 2004	**211**	**73**	**284**
Depreciation			
At 2 June 2003	90	52	142
Charge	37	12	49
At 30 May 2004	**127**	**64**	**191**
Net book value			
At 30 May 2004	**84**	**9**	**93**
At 1 June 2003	52	16	68

Notes to the Accounts continued

9 Investments

Group

	Investment in joint ventures £000
At 1 June 2003	(544)
Share of profit of joint ventures	354
At 30 May 2004	**(190)**

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

Company

	Investment in subsidiary companies £000	Investment in joint ventures £000	Total £000
At 1 June 2003 and 30 May 2004	–	1	**1**

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
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

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

European Wagering Services 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

European Wagering Services Limited was a joint venture between betinternet.com plc and US Off-Track LLC at the period end. European Wagering Services was 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. Subsequent to the period end, the Euro Off-Track Limited Partnership was fully acquired by betinternet.com plc (see note 25).

10 Debtors

	The Group		The Company	
	2004	2003	**2004**	2003
	£000	£000	**£000**	£000
Trade debtors	**52**	262	**51**	257
Amount due from group undertakings	**—**	—	**1,316**	1,065
Sundry debtor from joint venture	**641**	1,160	**661**	1,192
VAT recoverable	**—**	6	**—**	—
Other debtors and prepayments	**158**	183	**79**	87
	851	1,611	**2,107**	2,601

	The Group		The Company	
	2004	2003	**2004**	2003
	£000	£000	**£000**	£000
Due within one year	**210**	451	**130**	344
Due after more than one year	**641**	1,160	**1,977**	2,257
	851	1,611	**2,107**	2,601

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.

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

11 Creditors: amounts falling due within one year

	The Group		The Company	
	2004	2003	**2004**	2003
	£000	£000	**£000**	£000
Bank overdrafts	**7**	87	**—**	34
Trade creditors	**1,208**	1,343	**1,114**	1,088
Deferred income	**16**	47	**16**	29
Accruals and other creditors	**286**	399	**269**	277
	1,517	1,876	**1,399**	1,428

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 £24,526 (2003: £26,167) relating to the payroll, and betting duty payable of £2,107 (2003: £6,400).

The group's policy regarding liquidity is outlined in note 22 on page 30.

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

Notes to the Accounts continued

12 Share Capital

Authorised

	No.	2004 £000	2003 £000
Ordinary shares of 1p each	**185,000,000**	**1,850**	1,850
Allotted, issued and fully paid			
At 1 June 2003: ordinary shares of 1p each	116,687,027	1,167	1,007
Issued under the terms of subscription agreement	—	—	160
Exercise of warrants	625	—	—
At 30 May 2004: ordinary shares of 1p each	**116,687,652**	**1,167**	1,167

During the period ended 30 May 2004, the exercise of warrants issued to existing shareholders resulted in 625 new ordinary shares being issued on 9 January 2004 at 12p per share.

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 former 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 30 May 2004 were as follows:

	No.
At 1 June 2003 — 1p Ordinary Shares	9,330,820
Options lapsed	(3,033,740)
Options granted	—
At 30 May 2004 — 1p Ordinary Shares	**6,297,080**

Details of options at 30 May 2004 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	56,000	September 2003 and September 2010
1998 Share Option Plan	23.15p	40,000	December 2003 and December 2010
2000 USA Share Option Plan	10p	1,822,493	December 2003 and December 2012
2000 USA Share Option Plan	10p	1,822,493	December 2004 and December 2012
2000 Share Option Plan	12p	1,822,494	December 2005 and December 2012
		6,297,080	

Details of options held by directors are disclosed in the Report of the remuneration committee on pages 11 to 13.

12 Share Capital (continued)

Warrants

Movements in share warrants during the period ended 30 May 2004 were as follows:

(a) Warrants in respect of subscription agreement dated December 2001	**No.**	**Subscription price (p)**	**Maximum subscription (£000)**	**Latest date of exercise**
As at 1 June 2003 — 1p Ordinary Shares	25,263,132	12	3,032	December 2004
Issued	—	12	—	
Exercised	(625)	12	—	
As at 30 May 2004 — 1p Ordinary Shares	**25,262,507**	**12**	**3,032**	December 2004
(b) Warrants issued to Williams de Broë Plc				
As at 1 June 2003				
and 30 May 2004 — 1p Ordinary Shares	**312,500**	**16**	**50**	May 2007

13 Reserves

Group	**Share Premium £000**	**Profit and Loss Account £000**
At 1 June 2003	6,928	(5,774)
Premium on share issues, less expenses	—	—
Retained loss for the year	—	(1,894)
At 30 May 2004	**6,928**	**(7,668)**

Company	**Share Premium £000**	**Profit and Loss Account £000**
At 1 June 2003	6,928	(5,169)
Premium on share issues, less expenses	—	—
Retained loss for the year	—	(1,711)
At 30 May 2004	**6,928**	**(6,880)**

14 Reconciliation of movements in shareholders' funds

	The Group		**The Company**	
	2004 £000	**2003 £000**	**2004 £000**	**2003 £000**
(Loss)/profit for the financial period	**(1,894)**	(130)	**(1,711)**	275
Increase in issued share capital and share premium account	**—**	1,568	**—**	1,568
Net (decrease)/increase in shareholders' funds	**(1,894)**	1,438	**(1,711)**	1,843
Opening shareholders' funds	**2,321**	883	**2,926**	1,083
Closing shareholders' funds	**427**	2,321	**1,215**	2,926

Notes to the Accounts continued

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

	2004 £000	2003 £000
Operating (loss)/profit	**(2,249)**	101
Depreciation and amortisation charges	**785**	544
Reduction/(increase) in debtors	**760**	(788)
Reduction in creditors	**(280)**	(852)
Net cash outflow from operating activities	**(984)**	(995)

16 Analysis of cash flows for headings netted in the cash flow statement

	2004 £000	2003 £000
Return on investments and servicing of finance		
Interest received	**1**	8
Capital expenditure		
Payments to acquire tangible fixed assets	**(345)**	(382)
Receipts from sale of tangible fixed assets	**–**	5
Net capital expenditure	**345**	(377)
Acquisition (including cash assumed)		
Cash consideration	**–**	–
Cash assumed	**–**	77
	–	77
Financing		
Issue of new shares including share premium	**–**	1,568
Repayment of borrowings	**–**	(350)
	–	1,218

17 Analysis of net funds

	At 1 June 2003 £000	Cash Flow £000	At 30 May 2004 £000
Cash in hand and at bank	1,852	(1,408)	**444**
Bank overdraft	(87)	80	**(7)**
	1,765	1,328	**437**

18 Contingent liabilities

By the nature of the business, a stake can be received from a customer in respect of some event happening in the future, and hence the level of any actual liability to the group cannot be assessed until after that event has occurred, although the maximum potential liability can be determined. As at the balance sheet date there were £16,087 (2003: £46,752) 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).

19 Capital commitments

As at 30 May 2004, the group had no capital commitments (2003: £nil).

20 Operating lease commitments

At 30 May 2004, the group was committed to making the following payments during the next period in respect of operating leases:

	2004 £000	2003 £000
Leases which expire after five years	**108**	80

21 Related party transactions

During the period ended 30 May 2004 an amount totalling £2,016 (2003: £9,270) has either been paid by the group, or reflected as payable, to a single supplier, Partingtons Limited. W D Mummery who was a director of betinternet.com plc at the period end was a 50% shareholder of that supplier during the period.

Amounts totalling £24,275 (2003: £31,947) were paid, or are reflected as payable, to Binchy's, a firm of solicitors. One of the partners of that firm is a sister (Jennifer Caldwell) of Mr V E Caldwell, who resigned as a director of the company during the period ended 1 June 2003. Jennifer Caldwell also continued to hold a substantial interest in the company's ordinary share capital at the period end.

During the period ended 1 June 2003 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. The consultancy agreements were terminated during the period ended 1 June 2003.

During the period £15,008 (2003: £32,261) was paid to Browne Craine Associates Limited for the provision of D P Craine's services as Company Secretary (2003: Finance Director and Company Secretary). D P Craine is a director of Browne Craine Associates Limited.

During the period ended 30 May 2004 amounts totalling £59,393 (2003: £34,805) were paid to iRegent Corporate Finance Limited for corporate finance services. M L Child, who was a director of betinternet.com plc during the period, was a director of iRegent Corporate Finance Limited during the period.

Rental and service charge payments of £149,794 (2003: £81,793) were paid to Burnbrae Limited during the period.

Notes to the Accounts continued

22 Financial instruments

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

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

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

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

In order to provide customers with the reassurance that repayment requests are immediately met, the group seeks to ensure that its cash balances plus amounts held by host tracks on behalf of customers exceed the balances due to customers. On this measure, there was a shortfall of £581,000 at the period end. As further explained in note 25 the group has concluded arrangements to raise, subject to shareholder approval, £1million (£900,000 nett of expenses).

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

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

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

23 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.

24 Controlling party and ultimate controlling party

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

25 Post-balance sheet events

Following the period end, betinternet.com plc acquired the 50% of Euro Off-Track Limited Partnership not previously owned. This operation is now wholly owned by the group and will be fully consolidated with effect from 30 June 2004.

The directors noted that on 18 October 2004, the company received the proceeds of a convertible loan from Burnbrae Limited amounting to £200,000. The loan is capable of converting to 5 million new Ordinary Shares. The company has also entered into arrangements for a placing of new Ordinary Shares with Burnbrae Limited in order to raise further funding of £800,000. Both the conversion of the outstanding loan notes and the placing are subject to, and conditional upon, the approval of the independent shareholders to the waiver of the requirements of Rule 9 of the City Code.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the Sixth Annual General meeting of the above-named company will be held at The Claremont Hotel, 18/19 Loch Promenade, Douglas, Isle of Man, on 6 January 2005 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 30 May 2004.

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

3 To elect as a director Mr J Mellon who was appointed since the date of the previous annual general meeting and offers himself for election in accordance with the company's Articles of Association.

4 To 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

5 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

6 The directors of the Company be and they are hereby empowered pursuant to Article 8 of the Articles of Association of the Company (the "Articles") to allot equity securities (as defined in Article 7(H) of the Articles) pursuant to the authority conferred on the directors to allot relevant securities by Resolution 5 above as if paragraph A of Article 7 of the Articles did not apply to such allotment PROVIDED THAT this power shall be limited to:

(i) the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities are issued proportionally (or as nearly as may be) to the respective number of ordinary shares held by such shareholders (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with issues arising under the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or the fixing of exchange rates applicable to any such equity securities where such equity securities are to be issued to shareholders in more than one territory, or legal or practical problems in resect of overseas shareholders, fractional entitlements or otherwise howsoever);

(ii) the allotment of equity securities to holders of any options under any share option scheme of the Company for the time being in force, on the exercise by them of any such options; and

(iii) the allotment (otherwise than pursuant to paragraphs (i) or (ii) above) of equity securities up to a maximum aggregate nominal value equal to 5% of the issued ordinary share capital of the Company for the time being.

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

Notice of Meeting continued

As Ordinary Resolutions

7 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) subject to the passing by the members of the Company of the resolutions to be proposed at the extraordinary general meeting of the Company to be held on 29 December 2004 (the "Resolutions") the maximum number of shares that may be acquired is 15,044,000, and if the Resolutions are not passed, the maximum number of shares that may be acquired is 12,544,000;

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

(c) the maximum price that may be paid is, for a share the Company contracts to purchase on any day, a sum equal to 105% of the average of the upper and lower quotations on the Daily Official List of the London Stock Exchange for the ordinary shares of the Company on the five business days immediately preceding that day; and

(d) the authority conferred by this resolution shall expire at the conclusion of the next Annual General Meeting of the Company after the date of the passing of this Resolution unless renewed, varied or revoked by the Company in General Meeting, but not so as to prejudice the completion of a purchase contracted before that date.

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

9 That the betinternet.com 2005 Share Option Plan ("Plan"), the principal terms of which are set out in Appendix [1] of the letter to shareholders dated 10 December 2004, a copy of the rules of which is produced to this Meeting by the Chairman and initialled for the purposes of identification, be and it is hereby adopted and established and that the Board be and thereby is authorised to do all acts and things as it may consider necessary or desirable to carry the Plan into effect.

By order of the Board

M Caldwell

Secretary

Dated 10 December 2004

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

Notes

1. A member of the company who is entitled to attend and vote at the above Meeting is entitled to appoint a proxy or proxies to attend, speak and vote on his, her or its behalf. A proxy need not be a member of the company. Completion of a proxy form does not preclude a member from attending the above Meeting and from speaking and voting thereat.
2. To be valid, proxy forms must be deposited with the company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 2.00 pm on 4 January 2005.
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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