



**Betex**

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**Betex Group plc  
Report and Accounts  
31 December 2006**

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# Highlights

## Financial highlights

- **Turnover** **£20.8 million** (2005: £133.3 million)
- **Gross profit** **£2.79 million** (2005: Loss £0.73 million)
- **EBITDA loss** **£4.93 million** (2005: Loss £2.85 million)
- **Operating loss** **£7.27 million** (2005: Loss £3.38 million)

## Business highlights 2006

- March – AIM listing completed raising £12.5m net of expenses
- April – approval for opening of up to 22 shops in GuangZhou
- July – approval for the opening of up to 10 shops in Chong Qing
- August – acquisition of rights to lottery software and subsequently signed licensing agreement in 13 provinces
- August – acquired exclusive rights to mobile retailing of sports lottery products in 2 provinces
- December – signed Hebei co-management contract for Instant Scratch Cards



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# Comprehensive Business Review

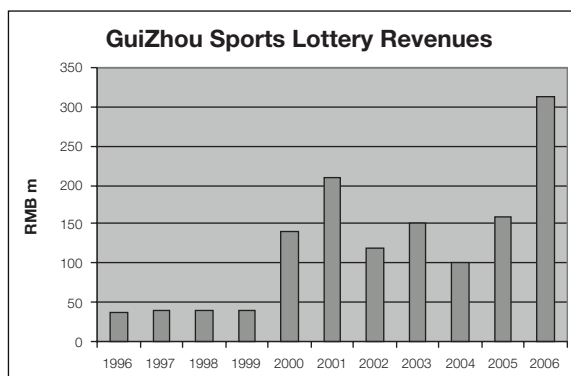
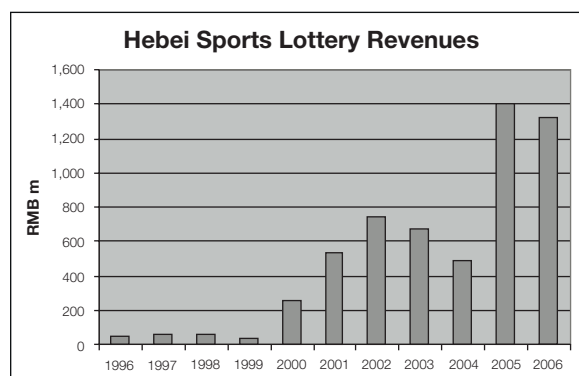
## Chinese Lottery

### Provincial Agreements

The annual spend on lottery products in China continues to increase, with the spending in 2006 exceeding US\$10 billion for the first time, meaning that total spend has more than doubled in 2 years. This growth is driven by new products being introduced by the Chinese government, and with several additional products launched at the end of 2006, or currently being trialed, this pattern looks set to continue.

In July 2005 the Group acquired its interests in the GuiZhou province. During the remainder of 2005 the Group earned revenues of £131,650. However, the annual spend on sports lottery products in GuiZhou grew from RMB 160 million in 2005 to RMB 310 million in 2006, an increase of over 90%. Consequently, the revenues earned by the Group during 2006 rose to £428,618.

The position of the Sports lottery in Hebei was slightly different. The annual revenues for 2005 were RMB 1.4 billion, a massive increase over the 2004 figure of RMB 490 million. There was a slight dip in 2006 to RMB 1.32 billion. As a result of the agreement that took effect in November 2005 the Group earned revenues of £96,691 in 2005, which has risen to £1,153,179 for 2006.



### Retail in China

During the course of 2006 the Group has developed a range of strategies to earn commission through the sale of lottery products to consumers in various provinces.

In April and July the Group reached agreements to gain involvement in the opening of retail shops selling Sports lottery products in GuangDong and Chong Qing. By the end of the year this involvement was represented by 6 shops operating in GuangZhou, the capital city of the GuangDong province. These shops were opened in the summer of 2006 with the expectation of being able to sell lottery tickets based on the outcome of single match football. The Group are delighted to report that on 28 October 2006 single match football betting was launched in GuangZhou, one of only 3 cities across China where this product can currently be legally purchased. The impact of the new product was immediate with sales in these existing outlets increasing by more than 500%.

During 2007 additional outlets will be opened, as well as extending the geographical reach by opening a number of outlets in Chong Qing.

The potential for increasing the number of outlets is significant, although the Group is currently restricted in this capability by the availability of management expertise and finance. In this respect the Group is considering partnership opportunities with organisations that can provide these additional resources. The Group's strategy will be to match the rollout of shops to that of the rollout of single match football betting into new provinces.

In August the Group acquired the rights to a software product that provides a consultative service to lottery players, effectively allowing them to create derivatives of the existing lottery games. This service is commonplace throughout many regions of China, but since the acquisition we believe the Group has grown to be one of the largest suppliers of this service in China, having signed exclusive licensing deals with agencies in 13 of the 31 mainland provinces. During the period from launch to the end of 2006 the software generated gross sales of £8.18 million, generating licence revenues for the Group of £132,500. These revenues were adversely impacted in November by a pricing point error, and this led to a loss of £140,000 instead of an expected income of around £200,000. This pricing point error has been

rectified, additional control processes have been implemented, and subsequent performance has been in accordance with expectations. At the year end this new product was being sold in excess of 2,500 independently owned lottery retail outlets.

As you may be aware in April this year a number of senior staff in Beijing and a number of agents who distributed the software were arrested by Chinese police authorities from the province of Jilin investigating alleged involvement in the crimes of 'gambling' and 'illegal operations'. The allegations centre on the operation of the lottery software product through the retail outlets. The Group has an opinion from lawyers in China that there is no case against the subsidiary company and that the software service operated within Chinese law. The Board believes that the alleged illegal activity relates to conduct by these individuals but that the question of the legality of the software product will not be determined until after the individuals concerned have been brought to trial which may be some months away. Until the matter is resolved by the courts this division has been closed down

Should it turn out that the trading was illegal the subsidiary company concerned could face a fine and the proceeds of the illegal trading confiscated. The Board has therefore decided that it would be prudent to make full provision against the net profit earned by that trade (£126,625 RMB 1,859,494), to write off the remaining cost of the software product (£18,159 RMB 266,665) and to cancel payment of the final instalment due on the software product (£19,625 RMB300,000).

In August 2006, the Group acquired an interest in mobile retailing of Sports lottery products. China is a geographically huge country, and the number of Sports Lottery retail outlets is significantly below that of a mature market. The reasons for this are both financial and logistical, but the problem it creates is that many potential players are physically remote from retail outlets. The penetration of mobile telephones is well advanced in China with there being in excess of one handset for every 4 people. In addition, collecting revenues through the existing billing arrangements the customer has with the mobile phone provider overcomes the scarcity of credit cards that becomes a problem for other forms of remote selling. Following the necessary approvals from the regulating authorities, the Chinese operating company launched this service in September this year.

As a result of the development of the business during 2006, turnover from the Chinese operations has risen to £9.78 million from £228,341 in 2005, and now represents 47.0% of total turnover.

## **UK Operations**

### **Asian Handicap Betting**

In the UK the majority of the Group's activity has been derived from the operation of the Asian Handicap style football betting platform and the associated proprietary desk. As planned and previously announced, during 2006 the activities of this division were dramatically reformed to focus on generating profitability from the existing users, rather than incurring marketing costs to acquire new customers.

As a result of this strategy, turnover for the year of £9.42 million has generated gross profits of £0.83 million compared to the 2005 turnover of £133.1 million that generated a gross loss of £0.95 million. Additional operational benefits have also been derived from this change in strategy as the UK staff numbers have reduced, and working capital tied up in hedging deposits have been released back into the business.

The Asian Handicap business continued to be financially volatile in terms of short term performance and remains the area of the business that generates most risk. By comparison, it is an area of the business that was forecast to deliver relatively small contribution to the forecast profit for 2007. The Board has therefore concluded that the Asian Handicap business should close. More details are supplied below in the Trading Outlook.

### **UK Retail Operation**

In December 2005 the Group acquired Capital Sports (Retail) Limited, a small chain of three licensed betting offices. During the current year the shops have generated turnover of £1.59 million, delivering a gross margin of £0.25 million, 15.6%. However the overall volume has been below initial expectations and the business posted a loss of £0.29 million before an impairment charge.

The Board's strategy is now to principally concentrate on the Chinese operations and in view of this in June this year they accepted an offer to acquire the company. To recognise the impairment of the carry cost of the acquisition to the value realised, a total charge of £0.9 million has been made increasing the loss before tax to £1.17 million.

## Financial Review

The Group's reported turnover has fallen in line with expectations from £133.3 million to £20.8 million as a result of the change in focus of the business, and more importantly the decision to reduce the turnover of the Asian Handicap business. The Group generated a gross profit of £2.8 million compared with a gross loss for 2005 of £(0.7) million.

The administrative expenses of the business have risen with the growing infrastructure required to support the widening of business across China. The Group now has administrative offices in Beijing and GuangZhou as well as 6 retail outlets in the GuangDong province, and employs over 100 staff in its various Chinese facing operations. Consequently, administrative expenses have risen to £7.64 million, before exceptional items, from £2.65 million.

Employee related expenses have risen from £837,041 to £2,855,710. This has been driven by three main contributors. Firstly the build up of staff numbers in the China, secondly an increase in the number of main Board directors to support the AIM listing, and profit related bonuses paid to the trading team within the Asian Handicap division reflecting the improved performance of this business unit. In addition in accordance with Financial Reporting Standard (FRS) 20 there is a charge of £478,075 for the fair value of share options granted to Directors and staff, there was no charge for this in the previous year as the options had only been in existence for one month and the charge was not material.

Accommodation expenses have risen from £125,758 to £412,534 as a result of the new offices and retail units opened in China.

The charge for bad debts has risen from £26,966 to £1,122,047. Of the charge £97,430 was the default by a bookmaker in the Far East used by the Asian Handicap proprietary trading team and £214,725 is a provision for non-recovery of deposits held by other Far East bookmakers and £500,000 relates to the security deposit for the Internet betting platform software following the closure of these operations. Whilst it is hoped to eventually recover most of these deposits the timescale involved cannot be predicted.

There has been a significant rise in legal and professional costs from £540,578 to £2,052,643 This is in part due to the higher regulatory costs of maintaining the AIM listing, but significantly due to the costs of consulting and lobbying fees incurred in the negotiation of new business that did not ultimately result in new contracts. These fees have been written off in the current year in accordance with the provisions of UITF abstract 34. This policy has resulted in an exceptional charge of £808,377 in these accounts; other costs of £526,275 were charged in the current year compared to £88,968 in 2005.

A full year's depreciation and amortisation has been charged in respect of the investments made in 2005, and together with the new investments in 2006 that has resulted in an increase to £1.33 million compared to £0.4 million in 2005. In addition, we have reviewed the value of the mobile lottery contracts and, because of changes in Chinese legislation and delays, have made a provision of £486,329 against them.

Following the decision to dispose of Capital Sports (Retail) Limited the carrying cost of this company was reduced to its fair value resulting in a charge of £904,586. In addition disposals of fixed assets in the UK resulted in a loss of £363,011 compared to £5,080 in the previous period.

We have also decided to dispose of our investment in the Euro VIP Club at the Grand Waldo Casino, Macau that was not performing well. It is uncertain what value will be achieved from the disposal or when it will be received. Therefore we have made full provision against its cost of £656,470. Any proceeds subsequently received will therefore show as a profit in future accounts.

Exchange rates have impacted on the results for the current year also, with the weakness in the US Dollar, with which the Chinese Renminbi is linked, raising the exchange rate from around 13.8 at the end of 2005 to almost 15.3 at the end of 2006. Consequently the Group has incurred exchange losses of £0.3 million.

Other administration costs for the year were £1.12 million compared to £0.67 million in 2005.

The Group's EBITDA loss increased from £2.85 million to £4.93 million. The Loss before taxation for 2006 was £8.47 million, or 6.68 pence per share, compared with £3.55 million or 6.27 pence per share in 2005.

During the year the Group had cash outflow from operating activities of £7.01 million (2005: £3.94 million). As at 31 December 2006 the Group had £4.55 million (2005: £3.7 million) of cash and liquid resources on its balance sheet. Net Debt amounted to £2.06 million (2005: £2.62 million).

The Group has commitments for the investment of £0.75 million, and following this the Directors have a reasonable expectation that the Company will have adequate resources to continue operations for the foreseeable future. For this reason they have adopted the going concern basis in preparing the accounts.

The Group keeps up to date in respect of the work of the Accounting Standards Board and gives careful consideration to early application of the ASB's Financial Reporting Standards. From 1 January 2007 the Group will be preparing its accounts in accordance with International Financial Reporting Standards (IFRS).

## **Key Performance Indicators**

### **UK Operations**

Both the Online Asian Handicap business and the Licensed Betting Offices are being curtailed, and consequently it is not felt appropriate to discuss the ongoing KPI's for these aspects of the business.

### **China Operations**

The China operations in larger part are reliant for their success on factors that are outside of the Group's direct control. The contracts that the businesses have signed with the Lottery Management Centres derive their revenue from the level of overall sales within those provinces. The drivers for sales in these provinces are the number of sales outlets, the number of new and existing products available to the public, and the increase in the amount of disposal income of the local population. In the absence of being able to influence and directly monitor these indicators, the Company relies upon the monthly sales figures for each province.

With regard to the Chinese retail operations the gross profit margins are fixed by legislation for retailers of lottery tickets. The business is therefore looking to volume as the Key Performance Indicator. Whilst this is ultimately measured in terms of ticket sales, the operation is attempting to monitor customer numbers and footfall, but has not yet established a reporting system to capture this detail.

## **Trading Outlook**

### **UK Operations**

The Board has decided to increase the focus of management time and financial resources on the China based operations, and to reduce the financial risk profile of the business, it has been decided to close the betting platform of the Asian Handicap division. During the evaluation process trading has been kept to a minimum, with an effective suspension having taken place from 2 April 2007. Subsequent to the events in China the proprietary desk was temporarily suspended but it is intended to recommence this operation following the investment of new equity.

In the period from 1st January to 30 April 2007 the division delivered a gross betting win of approximately £100,000.

The closure of the division resulted in the redundancy of 15 UK based staff with a consequent annual saving in salaries of £520,000 and projected bonuses of £280,000, together with further annual direct cost savings of £475,000. It is intended that the Company will move to smaller premises following the reduction in staff numbers, generating further annual savings estimated at £200,000. There will be some one-off closure costs, predominantly redundancy payments, estimated to be the region of £150,000, although no provision has been made in the figures to 31 December 2006.

Trading in the UK LBO's has been marginally ahead of expectations during the first half of the current year. However, in line with the focus on China the 3 units were not considered to have a strategic value to the Group and an offer to acquire Capital Sports (Retail) Limited was accepted by the Board.

### **China Operations**

The second and third quarters of the year have been dominated by the effects of the arrests in Beijing which effectively removed the senior management team there and cast legal doubts on the software business. This coupled with the UK Board changes has meant that a full review of the strategy in China has had to be undertaken, the effects of which are detailed below.

During the first half of 2007 trading in China has been very encouraging. The income derived from the existing co-management contracts is currently ahead of expectations, with revenues for Hebei up by around 40%, and in GuiZhou up by over 50% over the same period last year following the introduction of new higher frequency games.

The software business had performed consistently over the first quarter, albeit at slightly lower margins than had been anticipated. The number of independent sales outlets distributing the product rose throughout the first quarter to around 4,800. Towards the end of the quarter sales began on the new Welfare lottery high frequency draw 'Shi Shi Cai' product. The increased frequency of this game, together

with the imminent launch of a new high frequency game in the Sports Lottery called 'Rapido', has the capacity to drive growth in sales revenue strongly.

The events in April this year effectively closed this division due to the uncertainty over the legality of the software, the loss of both the manager (still being sought by the police) and the arrest of the assistant manager and the seizure by the police of the servers used.

The Shi Shi Cai and Rapido games are both licensed directly from the relevant Lottery Management Committees and are therefore perfectly legal and it is intended to restart sales of them, however the removal of the staff and equipment involved in the development of their internet sales system means that this will not occur until the final quarter of the year.

Sales in the GuangZhou shops continue to rise, with the sales figure for April 2007 the highest to date. This reflects the steady build up of a customer base learning about single match football betting. There is no indication at present that this product is making inroads into the illegal market, but it is hoped that this will occur when the prize payout offers a truly competitive product. The Board believe that sales will continue to grow organically, and through the introduction of 'Rapido', a new high frequency game that is currently being rolled out in Sports Lottery shops.

The manager of the retail division for the rest of China was one of those who was arrested and this has lead to a review of the plans for that division. Apart from the shops in Chong Qing which will cover both Sports and Welfare Lotteries it has been decided not to open outlets in other provinces until both a new management team is in place and the legal problems have been resolved. As a consequence the planned outlets in six provinces were abandoned.

Finally, the Sports Lottery Instant Scratch Card product launched in Hebei on 10 February 2007. Initially sales have been made through approximately 1,500 outlets in 3 cities in Hebei province and sales figures have exceeded expectations with around 13% of the annual sales target being achieved in the first 6 weeks of operations, a period that included the week of Chinese New Year when no sales took place. During April it was planned that sales would commence in a further 8 cities across Hebei, and that the number of sales outlets will rise quickly to around 40,000, however following the events in Beijing marketing of the product was suspended as the Betex name figured prominently on the tickets and sales dropped dramatically. The Hebei Sports Lottery Management Committee intends to recommence marketing of the product in September this year and it is thought that sales will quickly regain their previous levels.

In conclusion, the co-management and GuangZhou retail operations are trading in line with, or slightly ahead of expectations. The other areas will need work to bring them back up to expectations which will be a major task for the new management team to be recruited in China.

### **Principal Risks and Uncertainties**

The Group operates in a dynamic business environment. In addition to the day to day commercial risks faced by most enterprises, the Group faces particular risks by virtue of its operations within a regulated environment, and the geographical location of some of its operations.

### **Regulatory and Legislative Risks**

The regulatory and legislative regime for betting can change, sometimes at short notice. Such changes could have an adverse effect on the results and operations of the Group, and additional costs may need to be incurred to comply with any new laws and regulations. The UK is undergoing a significant change in its regulatory framework for Gaming, and the Group is working closely with its advisors to ensure that it maintains compliance with the changing regulation.

In China the Lottery market is also undergoing significant changes, and regulations with regard to Lottery sales, payouts and gaming rules may change. In order to manage these risks as far as is possible, the Board endeavours to establish and maintain relationships with the Ministry of Finance and the National Sports Lottery Bureau.

In order to operate in China, the Group is subject to the legislative jurisdiction of the People's Republic of China. Chinese laws and regulations are constantly changing, and it is not unknown for these laws to be changed retrospectively. The Chinese government has greatly reduced its control over the economy by introducing new regulations allowing market mechanisms to operate more freely. However, the new regulations require fresh interpretation and application which may not be as consistent and transparent as those of Western nations. Further, there is a risk that the current liberalisation and reform may change adversely. To manage this risk the Group employs local legal firms to monitor and advise on actual and prospective changes to the legislative environment.

Whilst the Group has had an opinion from our lawyers in China that the lottery software service complied with Chinese lottery and gaming legislation, in that it was not prohibited, the arrests and possible action over ‘gambling’ and ‘illegal operations’ meant that until the matter is resolved in Court it was decided that the risk involved in continuing this operation were too great and it was closed down. It should be noted that our main competitors in this market have also taken this course of action.

### **Currency Exchange Risk**

The Group generates much of its sales in China in Renminbi, whilst its funding is generated and investments are made in Pounds Sterling. The Renminbi is loosely pegged with the US Dollar, and the Group is therefore exposed to the movement in exchange rates for US Dollars and Renminbi to Sterling. The Group has been unable to identify hedging mechanisms directly against the Renminbi, and as there are no guarantees that the peg between the US Dollar and the Renminbi will be maintained, the Group has decided against hedging against the US Dollar.

### **Access to Capital**

The Group is still in the development stage and needs funds to cover the costs of growth. If investors are unwilling to provide such funds the progress of the group could be limited.

### **Bookmaking Risk**

The potential risk of losses that can be incurred is managed by the application of limits on individual bets and customers. However, customer betting patterns, the outcome of individual events, or a prolonged period of good or bad results could have a material effect on the results of the Group.

### **Management of Risks**

Each of the executive directors works daily in the business and are fundamental in the identification, assessment, and mitigation of risks affecting the Group. In addition, the Board meets on a regular basis where risks are assessed and, where appropriate, action is taken to mitigate the key risks that are identified.

## Board of Directors

### **Dr Johnny Hon (35)**

#### **Founder & Executive Chairman**

Dr. Johnny Hon founded Betex in 2005. Johnny has a degree in Biomedical Science from King's College, London and a PhD in Psychiatry from Cambridge University. In 1998, Johnny joined the private banking division of ABN AMRO before leaving to set up his own business. He formed Global Underwriting plc in 1998, one of several companies now within the Global Group (Europe) plc, of which Johnny remains Chairman.

Johnny is heavily involved in developing business opportunities between China and Great Britain. He is a committee member of the 48 Group Club which promotes positive trade and cultural relations with China.

He holds a number of diplomatic and other positions including benefactor of the Royal Society for Asian Affairs, founder benefactor of Asia House, permanent honorary president of Friends of Hong Kong Association, commercial representative for Saint Vincent and the Grenadines in Singapore, Ambassador at Large of the Comoros for Economic Affairs and International Investments, senior advisor to the Foreign Policy Research Centre, China Foundation for International & Strategic Studies, committee member of the Senior Advisory Committee to the China Foundation for International & Strategic Studies and Honorary Consul for Grenada in Hong Kong.

### **Jeremy Longley (41)**

#### **Chief Operating Officer**

Jeremy Longley, 41, graduated from London University in 1989 and quickly established himself as a successful publishing and new media entrepreneur, forming and running businesses with partners such as BSkyB and Carlton TV. He has been actively involved in the betting and gaming sector for over ten years, acting as a consultant to a number of global brands including Ladbrokes plc and Gala Coral Ltd. He originally joined Betex in 2005 and rejoined the Group in May 2007 as Chief Operating Officer.

### **John Blower (65)+\***

#### **Senior Non-Executive**

John Blower has founded and provided start-up capital and management to a number of private and listed companies including Warmplan Limited, which was sold to Seaflame plc; Chamberlain Properties which was sold to Taylor Woodrow, Wakeworth Finance Ltd. (of which he is chairman), and Waste Management Inc., a NASDAQ listed company which specialises in the disposal of waste products.

In 1998, John helped secure start-up capital for Sportingbet plc and put together a board of directors who took the company to Ofex. John resigned as a director of Sportingbet plc in March 2004.

### **David Cowham (66)\***

#### **Non-Executive Director**

David Cowham brings over 34 years of experience in the finance industry to the Board. He served as chief executive officer of First National Bank plc from 1988 to 1994 and more recently was a director and chairman of Loans.co.uk plc from 1995-2001.

David was also a seed capital investor in Sportingbet plc in 2001.

### **Stephen Davidson (52)+**

#### **Non-Executive Director**

Stephen is the Chairman of SPG Media plc, Enteraction TV Ltd and Digital Marketing Group plc. He is also a Non-Executive Director of Inmarsat plc, EBT Mobile China plc and Datatec Ltd.

He has held various positions in Investment Banking, most recently at WestLB Panmure where he was Global Head of Media and Telecoms, Investment Banking, then Vice Chairman of Investment Banking. From 1993 to 1998 Stephen was Finance Director, then CEO of Telewest Communications plc. He was Chairman of the Cable Communications Association from 1996 to 1998.

Stephen holds a 1st Class Honours Degree in Mathematics and Statistics from the University of Aberdeen.

**Alexander von Franckenstein (41)<sup>+</sup>\***

**Non-Executive Director**

Alexander von Franckenstein, brings a wealth of investment banking experience to the Betex Board. He is currently Co-Managing Director of Sal. Oppenheim jr. & Cie KGaA, and an Executive Board member of BZ Beraterzentrum AG. Zurich, having held previous Senior Management positions at Bank Julius Baer AG, where he was a member of the Executive Board, and Hypo-Vereinsbank. Alexander holds Master Degrees in Economics and International Affairs from Paris and Lausanne respectively and is a graduate of the Universite de Paris, Sorbonne-Pantheon.

+ Member of the Audit Committee

\* Member of the Remuneration Committee

**Peter Greenhill (53)**

**Chief Executive Officer**

Resigned 11 May 2007

**Stuart Barker (40)**

**Chief Financial Officer**

Resigned 11 May 2007

**Philip Goodmaker (59)**

**Non-Executive Director**

Resigned 11 May 2007

# Corporate Governance Statement

Following an internal review by S J Berwins, the Company has strengthened its core internal controls and is committed to abiding diligently by tighter policies that have been introduced.

## Compliance

The Company recognises the importance of the principles of good corporate governance and the Board is pleased to report its commitment to high standards. As an AIM listed company during 2006, Betex is not required to follow the provisions of the 2003 FRC Combined Code (the "Code") as set out in the Financial Services Authority Listing Rules. Nonetheless, the Company voluntarily complies with the principles referred to in Section 1 of the Code.

The Board is accountable to the Company's shareholders for good governance and the statement set out below describes how the principles identified in the Code are applied by the Group.

## The Board Constitution and Procedures

The Company is controlled through the Board of Directors which currently comprises two Executive and four Non-Executive Directors. Three of the non-executives hold shares or warrants in the Company that may prevent them from being considered as independent under the criteria set out in the Combined Code. However, the Board considers these directors to be independent in character and judgement and they are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement.

The Chairman is primarily responsible for the running of the Board, he ensures that all Directors receive sufficient relevant information on financial, business and corporate issues prior to meetings. The Chief Executive's responsibilities focus on coordinating the Company's business and implementing Group strategy.

The Board meets approximately nine times each year. The Board is responsible for overall Group strategy, acquisition and investment policy, approval of major capital expenditure projects and consideration of significant financing matters. It reviews the strategic direction of individual trading subsidiaries, their codes of conduct, their annual budgets, their progress towards achievement of these budgets and their capital expenditure programmes.

In addition, the Directors have access to the advice and services of the Company Secretary and all Directors are able to take independent professional advice in the furtherance of their duties if necessary. The Directors receive training and advice on their responsibilities as necessary. All Directors will, in accordance with the Code, submit themselves for re-election at least once every three years.

## Board Committees

The Board delegates clearly defined powers to its Audit, Remuneration and Nomination Committees. The minutes of each Committee are circulated to and reviewed by the Board.

### Audit Committee

The Audit Committee was chaired by Philip Goodmaker (who had recent and relevant financial experience for this role), and its other members are John Blower and Stephen Davidson. The Committee's Secretary is Simon Spector, the Company Secretary. Following Philip Goodmaker's resignation Stephen Davidson has become chairman and Alexander von Franckenstein has joined the committee.

The Audit Committee meets at least twice a year and normally invites a representative of both the auditors and the Executive Directors, the latter usually being the Chief Financial Officer. The terms of reference of the Committee include monitoring the auditors' performance, independence and objectivity, and reviewing accounting policies and financial reporting procedures.

The ultimate responsibility for review and approving the annual accounts and interim statements remains with the Board.

## Remuneration Committee

The Remuneration Committee is chaired by John Blower and its other members are David Cowham and Philip Goodmaker. The Committee's Secretary is Simon Spector, the Company Secretary. Following Philip Goodmaker's resignation Alexander von Franckenstein has joined the committee.

The Remuneration Committee meets when necessary during the year and considers the terms of employment and overall remuneration for the Executive Directors and key members of senior management. In particular, the Committee makes decisions regarding grants under share plans, salaries and incentive compensation.

The remuneration of Non-Executive Directors is determined by the Board. It is a policy of the Remuneration Committee that no individual participates in discussions or decisions concerning their own remuneration.

## Nomination Committee

The Nomination Committee was chaired by John Blower and its other members were David Cowham and Philip Goodmaker. The Committee's Secretary was Simon Spector, the Company Secretary.

The Committee meets when necessary during the year. The Committee was responsible for monitoring and formally reviewing the performance, composition, balance and expertise of the Board as a whole and making an appraisal of the contribution of individual directors. The Committee also considered succession planning for the Board and Group senior management.

Any recommendations for appointments or replacements are brought before the Board.

Following the Board changes in the current year it was decided that this Committee would become a committee of the whole Board rather than a separate unit.

## Directors' Attendances

	Board	Audit	Remuneration	Nomination
<b>Director – attended (possible)</b>				
J S Hon	6 (8)			
P A Greenhill	8 (8)			
S P Barker	8 (8)			
J W Blower	7 (8)	1 (2)	3 (3)	1 (1)
D F Cowham	5 (8)		3 (3)	1 (1)
P Goodmaker	8 (8)	2 (2)	3 (3)	1 (1)
S J Davidson	6 (6)	1 (1)		

## Communication with Investors

The Group places a great deal of importance on communication with its institutional and private shareholders and responds quickly to all queries received. There is regular dialogue with institutional shareholders as well as general presentations after the issue of preliminary results.

All shareholders have at least 21 days' notice of the Annual General Meeting at which Directors are introduced and available for questions. The executive directors endeavour to meet the Company's larger institutional shareholders at the time of the Company's results announcements.

## Internal Control

The key features of the Group's internal controls are set out below:

### *Management structure*

The Group's control systems are the responsibility of the Board and executive managers at all levels. Following the changes in Board structure this year it has reviewed and has satisfied itself the Group now has a clear organization structure with clearly defined and understood responsibilities and lines of accountability. The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, and has undertaken to review this process on a regular basis.

### *Information systems and financial reporting*

The Board oversees a system of internal financial controls whose objective is to safeguard Group assets, ensure proper accounting records are maintained, and that the financial information generated is reliable. Internal financial control monitoring procedures undertaken by the Board include:

- a review of monthly financial reports including monitoring of key performance indicators, ensuring reports are prepared on a timely basis;
- the preparation of formal budgets for all business units, culminating in a Group annual budget reviewed and approved by the Board. Results for the Group are reported against these budgets;
- reports are prepared for the Board by the executive directors and senior employees on the operation of the business units for which they are responsible;
- defined guidance for approval of capital items and investments made by the Group.

### *Risk management and internal control*

Risks to the business are considered on an ongoing basis by the Board. In particular, the executive members of the Board are involved daily in all aspects of the business and they hold regular management meetings at which performance against plan is reviewed, risks are identified and ameliorated, and business prospects are evaluated and prioritised.

The Board has considered it inappropriate to establish an internal audit function given the size of the Group. This decision will be kept under review as the operations of the Group develop.

### *Audit*

The Audit Committee meets periodically to consider the adequacy of the Group's control and reporting functions, accounting policies and compliance with applicable accounting standards, and for considering the appointment and fees of external auditors. The Group's auditors are generally invited to attend these meetings. The Audit Committee is authorised by the Board to investigate any activity within its terms of reference, taking outside legal or other professional advice as it deems necessary. The Audit Committee consists entirely of non-executive directors.

The award of any non-audit work to the auditors is subject to clearance by the Audit Committee. In accordance with auditing standards the auditors have confirmed their independence in writing.

# Corporate Social Responsibility

## Overview

Since its formation the Company has always sought to exhibit responsible and ethical practices. In its start up period the Company was conscious of concern over the reputation of internet bookmaking with many operators being domiciled abroad, and consequently sought to reassure customers and suppliers alike by basing itself within the UK regulation system. As the Company has grown its business and widened operations to focus on business in China it has increasingly confirmed its position as a dependable operator in the marketplace. The Company's objective is to operate in the regulated entertainment environment in which responsible adults have the confidence of knowing that their use of the Company's services is legal and regulated.

## Customers

As a service business the core of the Company's approach to social responsibility lies in its approach to its customers. All employees are committed to winning and retaining the trust of their customers. To achieve this means far more than merely collecting documentary evidence to satisfy regulation. It is about understanding their individual requirements, appreciating and addressing their concerns, without impacting on their enjoyment of the Company's services.

The Company has a growing involvement in China, with customers playing the Chinese State lottery. The Company is committed to working with the Chinese authorities to promote responsible game play. As a traditional retail business, the ability to understand and profile customers is limited. However, staff are encouraged to report unusual or suspected abnormal gameplay.

## Employees

The Board is of the belief that the Company's success is dependant on the quality and commitment of its workforce. The Company's employee management priorities are based on recruiting and retaining the best available people and on encouraging working practices that improve productivity, develop talent and give job satisfaction. Further, the Board recognises the need for communication with employees at every level.

Copies of the annual Report and Accounts are available to all employees. The Company is committed to developing ongoing communication with its employees. This is achieved through a variety of channels to ensure that everyone is informed of the Group's progress and recognises the key roles that they, as employees, play in the Company's success. Further, 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, age, sex, marital status, nationality, race or religion.

## Trade and Charitable Organisations

The Company recognises the obligation upon the gaming industry to demonstrate its commitment to self-regulation and the Company is supportive of the role that the industry's trade associations can play in this regard. The Company's management remains committed to promoting the value of a regulated approach to the industry, not least as a mechanism for protecting the vulnerable elements of society from unscrupulous operators. The Company also supports organisations which encourage greater education of the social impact of gambling and help to users who may be affected by gambling dependency. In the UK it supports the activities of Gamcare.

# Remuneration Report

The Remuneration Report sets out the Company's remuneration policy and its application to directors.

## (a) Remuneration Policy

The Company's policy is designed to attract, retain and motivate individuals to ensure the success of the Company. Remuneration packages are designed to reward the Executive Directors fairly for their contributions whilst remaining within the range of benefits offered by similar companies in the sector.

The Remuneration Committee seeks to structure total benefits packages, including base salaries, which align the interests of shareholders and senior executives with particular importance weighted upon the performance-related elements of such total remuneration. Directors' remuneration will be the subject of regular review in accordance with this policy.

## (b) Terms of Reference The terms of reference of the Remuneration Committee include:

- To determine the remuneration and benefits, including incentive arrangements, of the Executive Directors, the directors of divisional companies and other employees of similar status.
- To set targets for performance-related elements of remuneration packages.
- To review recommendations from the Board on the overall remuneration and benefits policy of the Group, with the power and authority to amend it if appropriate.
- To have regard to the provisions of the Combined Code and associated guidance in its decision-making.

## (c) Service Contracts

The Company's policy on the duration of directors' contracts is that for both Executive and Non-Executive Directors notice periods will be no more than 6 months served by the Company or the Director.

## (d) Bonuses

The Company operates a bonus incentive scheme which applies, at differing rates, to the employment terms of the Executive Directors and members of senior management. Payments under this scheme are a combination of payments linked to the annual performance of the business and some payments made on a discretionary basis on the recommendation of the Remuneration Committee.

The Remuneration Committee will review the packages and vary individual elements when appropriate from year to year.

## (e) Share Option Schemes

The Company operates a share option schemes, namely the Betex Group Unapproved Share Option Scheme (the "Unapproved Scheme").

The Directors' emoluments, benefits and shareholdings during the year ended 31 December 2006 were as follows:

## 1. Directors' Emoluments

	Note	Salary/ Fees £000	Bonus £000	Benefits £000	Total emol- uments 2006 £000	Pension 2006 £000	Total emol- uments 2005 £000	Pension 2005 £000
<b>Executive Directors</b>								
Dr J Hon		100	–	3	103	–	42	–
P Greenhill	1	150	–	6	156	8	63	2
S Barker		110	–	3	113	5	18	–
<b>Non-Executive Directors</b>								
J Blower	3	31	–	–	31	–	3	–
D Cowham		20	–	–	20	–	3	–
P Goodmaker		20	–	–	20	–	16	–
S Davidson	4	13	–	–	13	–	–	–
<b>TOTALS</b>		444	–	12	456	13	145	2

- Aggregate emoluments for Peter Greenhill, as highest paid Director, amounted to £156,189 (2005: £62,500) excluding pension contributions.
- The average total emoluments of the executive directors was £124,033 (2005: £40,833).
- The figures reported for John Blower include £11,000 relating to services supplied in 2005.
- Stephen Davidson was appointed as a director on 4 May 2006.

## 2. Interests of Directors in share options and shares in the Company

	No. Of Options issued during 2005	No. of Options issued during 2006	Date of Grant	Exercise Price	Earliest exercise date	Expiry of exercise period
<b>Options</b>						
<b>Executive Directors</b>						
Dr J Hon	Nil		N/A	N/A	N/A	N/A
		1,750,000	31/3/06	60p	31/3/07	30/3/17
P Greenhill	2,000,000		1/12/05	34.5p	1/12/06	30/11/15
		1,750,000	31/3/06	60p	31/3/07	30/3/17
S Barker	500,000		1/12/05	34.5p	1/12/06	30/11/15
		1,750,000	31/3/06	60p	31/3/07	30/3/17
<b>Non-Executive Directors</b>						
J Blower	N/A	N/A	N/A	N/A	N/A	N/A
D Cowham	N/A	N/A	N/A	N/A	N/A	N/A
P Goodmaker	N/A	N/A	N/A	N/A	N/A	N/A
S Davidson	N/A	50,000	5/5/06	79p	5/5/07	4/5/17

- All share options as at 31 December 2006 have been granted under the Betex Group plc Unapproved Share Option Scheme 2005 (as amended).
- No options were exercised during the period. The market price of shares at 31 December 2006 was 38.5p and the range during the financial period was 31.5p to 81p.
- All share options held by the executive Directors became fully vested on 31 March 2007.

## 2. Interests of Directors in share options and shares in the Company *(continued)*

	<i>Notes</i>	<b>31 December 2006</b>	<b>31 December 2005</b>
<b>Shares</b>			
<b>Executive Directors</b>			
Dr J Hon		24,782,189	24,752,189
P Greenhill	1	20,000	10,000
S Barker		Nil	Nil
<b>Non-Executive Directors</b>			
J W Blower	2	937,972	937,972
D F Cowham	3	5,415,119	3,602,170
P Goodmaker	4	100,000	100,000
S J Davidson		10,000	N/A

1. Included in Peter Greenhill's shares in the Company are 5,000 shares in the name of his wife, and 5,000 in the name of his son.
2. Included in John Blower's shares are 25,000 shares in the name of his wife.
3. Included in David Cowham's shares are 313,400 shares in the name of his wife.
4. The shares are held jointly by Mr Philip Goodmaker and Mrs Andrea Goodmaker.

D F Cowham  
Chairman  
Remuneration Committee

## Directors' Report

The directors present their report and accounts for the year ended 31 December 2006.

### Principal activities and review of the business

The Company is a holding company of a group whose principal activities during the year were the co-management of Provincial State Sports lotteries and retail sales and other lottery related activities in the People's Republic of China; together with the operation of interactive licensed betting operations over the internet and telephone and licensed betting shops.

The Company is required by the Companies Act to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2006 and of the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group ("business review"). The information that fulfils the requirements of the business review can be found within the Comprehensive Business Review on pages 4 to 9.

### Results and dividends

The loss for the year, after taxation and minority interests, amounted to £8,802,129 (2005: £3,553,432). The directors do not recommend payment of an ordinary dividend for the year.

### Events since the balance sheet date

On 13 April 2007 two senior staff were arrested in Beijing, and as a result of this the Group's Lottery Software division in China was closed down and trading of the Group's shares on AIM was suspended. Subsequently a number of Directors left the Group. Trading in the Group's shares on AIM did not recommence and under the AIM rules they were delisted on 18 October 2007. The Company has subsequently received commitments totalling £750,000 by a combination of a share placing and the issue of convertible loan notes to provide funding for the continuing operations of the Group.

Full and further details are given in Note 31 to the accounts.

### Directors

The directors who served during the year and their interests in the share capital of the company were as follows:

	Date of Appointment	Date of resignation	Ordinary shares of 1p	
			31 Dec 2006	31 Dec 2005 or date of appointment
Dr J S Hon – Executive Chairman			24,782,189	24,752,189
P A Greenhill – CEO		11 May 2007	20,000	10,000
S P Barker – CFO		11 May 2007	–	–
J W Blower – Non Executive			962,972	937,972
D F Cowham – Non Executive			5,145,119	3,602,170
P Goodmaker – Non Executive		11 May 2007	100,000	100,000
S J Davidson – Non Executive	04 May 2006		10,000	–
	Warrant holding		Option holding	
	31 Dec 2006	31 Dec 2005 or date of appointment	31 Dec 2006	31 Dec 2005 or date of appointment
Dr J S Hon – Executive Chairman	5,267,811	5,267,811	1,750,000	–
P A Greenhill – CEO	526,781	526,781	3,750,000	2,000,000
S P Barker – CFO	230,833	230,833	2,250,000	500,000
J W Blower – Non Executive	3,424,077	3,424,077	–	–
D F Cowham – Non Executive	–	–	–	–
P Goodmaker – Non Executive	526,781	526,781	–	–
S J Davidson – Non Executive	–	–	50,000	–

In accordance with the Articles of Association Dr J S Hon retires by rotation and S J Davidson having been appointed during the year retires at the 2007 Annual General Meeting and, being eligible, offer themselves for re-election.

J J Longley was appointed as a director and COO and A Von Franckenstein was appointed as a non executive director on 11 May 2007. Having been appointed since the last Annual General Meeting they retire at the 2007 Annual General Meeting and being eligible offer themselves for re-election.

Details of the directors' service agreements are given in the Remuneration Report set out on pages 16 to 18. The directors benefited from qualifying third party indemnity provisions in place during the year and which remain in place at the date of this report.

#### **Disclosure of information to auditors**

So far as each director at the date of approval of this report is aware:

- there is no relevant audit information of which the Group's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

#### **Substantial shareholdings at 31 December 2006 (excluding directors)**

	<b>Number of Ordinary Shares of 1p</b>	<b>% of issued Ordinary Shares of 1p</b>
HSBC Global Custody Nominee (UK) Limited	9,659,100	7.15
HSBC Global Custody Nominee (UK) Limited	7,200,000	5.33
Chase Nominees Limited	6,445,357	4.77
Credit Suisse Securities (Europe) Limited	5,955,000	4.41
Vidacos Nominees Limited	5,112,600	3.79
Pershing Keen Nominees Limited	4,531,830	3.36

#### **Payment of Suppliers**

It is the policy of the Group that each company within the Group should agree appropriate terms and conditions for its transactions with suppliers by means ranging from standard written terms to individually negotiated contracts. Payments are normally made in accordance with terms and conditions. At 31 December 2006 the Company had trade creditors representing 28 days (2005: 76 days) of purchases. Group trade creditors represented 31 days (2005: 43 days) of purchases.

#### **Employee Policy**

The Group operates a policy of non-discrimination in respect of ethnicity and disabled persons and encourages the personal and professional development of all persons working for the Group.

#### **Financial instruments**

Treasury activities take place under procedures and policies monitored by the Board. They are designed to minimise the financial risks faced by the Group which primarily arise from interest rate, currency, credit and liquidity risks and information is given in Note 35 to the accounts. It is not the policy of the Group to trade in or enter into speculative transactions.

#### **Auditors**

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of PKF (UK) LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

This report was approved by the board and signed on their behalf on 30 November 2007.

S F Spector  
Company Secretary

## Statement of Directors' Responsibilities

The directors are responsible for preparing the report and accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare accounts for each financial year. Under that law the directors have elected to prepare the accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The accounts are required by law to give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss for that period. In preparing these accounts, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the corporate information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the accounts and other information included in annual reports may differ from legislation in other jurisdictions.

# Independent Auditors' Report to the Members of Betex Group plc

We have audited the group and parent company accounts ('the accounts') of Betex Group plc for the year ended 31 December 2006 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes. The financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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' responsibilities for preparing the Annual Report and accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the accounts. The information in the Directors' Report includes that specific information presented in the Comprehensive Business Review that is cross referenced from the business review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions with the company is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited accounts. This other information comprises only the Directors' Report, the Comprehensive Business Review, the Corporate Governance Statement and the Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

## Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts 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 accounts.

## Opinion

In our opinion:

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 31 December 2006 and of the loss of the Group for the year then ended;
- the accounts have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the accounts.

### **Emphasis of matter – Going Concern**

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in notes 1 and 31 to the accounts concerning the fundamental uncertainty as to the Group's short and medium-term viability with specific regard to the arrest of staff in China and suspension of the Lottery Software trading and the implication this might have for the future trading prospects of the Group, together with the ability of the Group to raise adequate funding to continue as a going concern. The new funding which investors have committed to may be insufficient for the Group's working capital requirements and the part which is convertible loan notes may be required to be repaid within nine months of the date of issue. These conditions, along with the other matters explained in notes 1 and 31 to the accounts, indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. The accounts do not include the adjustments that would result if the group was unable to continue as a going concern.

PKF (UK) LLP  
London  
Registered auditors  
30 November 2007

## Consolidated Profit and Loss Account for the year ended 31 December 2006

	Notes	2006 £	2005 £
<b>Turnover</b>	2	20,801,011	133,309,157
Cost of sales		(18,646,945)	(134,201,017)
Other trading income	3	640,637	159,220
<b>Gross profit/(loss)</b>		2,794,703	(732,640)
Administrative expenses		(10,069,719)	(2,649,508)
– including exceptional items	4	(2,426,913)	–
Other operating income		7	444
<b>Operating loss</b>	4	(7,275,009)	(3,381,704)
Loss on the disposal of tangible fixed assets	5	(363,011)	–
		(7,638,020)	(3,381,704)
Income from investments		20,720	–
Interest receivable		343,280	34,887
Amounts written off investments	14	(1,150,538)	–
Interest payable	9	(613,007)	(228,646)
<b>Loss on ordinary activities before taxation</b>		(9,037,565)	(3,575,463)
Tax on loss on ordinary activities	10	–	–
<b>Loss on ordinary activities after taxation</b>		(9,037,565)	(3,575,463)
Minority interest	26	235,436	22,031
<b>Loss for the financial year</b>	25	(8,802,129)	(3,553,432)
<b>Loss per share – basic</b>	11	(7.09)p	(6.27)p
<b>Loss per share – fully diluted</b>	11	(7.09)p	(6.27)p

All of the Group's activities relate to continuing operations, which were acquired during the above two financial years.

## Statement of Total Recognised Gains and Losses for the year ended 31 December 2006

	2006 £	2005 £
Loss for the financial year	(8,802,129)	(3,553,432)
Net exchange differences on the retranslation of net investments	(406,211)	52,754
Total recognised gains and losses related to the year	(9,208,340)	(3,500,678)

## Consolidated Balance Sheet as at 31 December 2006

	Notes	2006 £	2005 £
<b>Fixed assets</b>			
Intangible assets	12	563,541	1,206,595
Tangible assets	13	1,154,820	656,556
Investments	14	7,965,942	4,635,929
		<u>9,684,303</u>	<u>6,499,080</u>
<b>Current assets</b>			
Stocks	15	3,486	–
Debtors	16	3,149,632	2,869,798
Cash at bank and in hand	17	4,547,153	3,712,113
		<u>7,700,271</u>	<u>6,581,911</u>
<b>Creditors: amounts falling due within one year</b>	17	<u>(3,944,093)</u>	<u>(9,744,009)</u>
<b>Net current assets/(liabilities)</b>		3,756,178	(3,162,098)
<b>Total assets less current liabilities</b>		13,440,481	3,336,982
<b>Creditors: amounts falling due after more than one year</b>	18	<u>(1,043,535)</u>	<u>(1,278,923)</u>
<b>Net assets</b>		<u>12,396,946</u>	<u>2,058,059</u>
<b>Capital and reserves</b>			
Called up share capital	22	1,350,411	704,900
Share premium	23	22,420,403	4,304,680
Other reserve	24	559,681	559,681
Profit and loss account	25	(12,230,943)	(3,500,678)
<b>Equity shareholders' funds</b>	27	12,099,552	2,068,583
Minority interest	26	297,394	(10,524)
		<u>12,396,946</u>	<u>2,058,059</u>

S F Spector

Director

The accounts were approved and authorised for issue by the Board and were signed on its behalf on 30 November 2007.

## Balance Sheet as at 31 December 2006

	Notes	2006 £	2005 £
<b>Fixed assets</b>			
Tangible assets	13	399,933	289,723
Investments	14	7,914,333	3,405,645
		<u>8,314,266</u>	<u>3,695,368</u>
<b>Current assets</b>			
Stocks	15	–	–
Debtors	16	3,318,185	5,682,935
Cash at bank and in hand	17	3,362,830	–
		<u>6,681,015</u>	<u>5,682,935</u>
<b>Creditors: amounts falling due within one year</b>	17	<u>(293,064)</u>	<u>(6,083,046)</u>
<b>Net current assets/(liabilities)</b>		6,387,951	(400,111)
<b>Total assets less current liabilities</b>		14,702,217	3,295,257
<b>Creditors: amounts falling due after more than one year</b>	18	<u>(1,043,535)</u>	<u>(707,019)</u>
<b>Net assets</b>		<u>13,658,682</u>	<u>2,588,238</u>
<b>Capital and reserves</b>			
Called up share capital	22	1,350,411	704,900
Share premium	23	22,420,403	4,304,680
Profit and loss account	25	(10,112,132)	(2,421,342)
<b>Equity shareholders' funds</b>	27	<u>13,658,682</u>	<u>2,588,238</u>

S F Spector  
Director

The accounts were approved and authorised for issue by the Board and were signed on its behalf on 30 November 2007.

# Consolidated Cash Flow Statement for the year ended 31 December 2006

	<i>Notes</i>	2006 £	Pro-forma 2005 £
<b>CASH FLOW STATEMENT</b>			
<b>Net cash outflow from operating activities</b>	28	(7,013,040)	(3,945,121)
<b>Returns on investments and servicing of finance</b>	28	(201,261)	(124,016)
<b>Capital expenditure and financial investments</b>	28	(6,422,558)	(2,671,756)
<b>Acquisition of subsidiaries</b>	28	(797,764)	6,974
<b>Cash outflow before financing</b>		(14,434,623)	(6,733,919)
<b>Management of liquid resources</b>	28	224,553	(2,501,888)
<b>Financing</b>	28	15,269,664	10,395,340
<b>Increase in cash</b>		<u>1,059,594</u>	<u>1,159,533</u>
<b>Reconciliation of net cash flow to movement in net debt</b>			
<b>Increase in cash in the period</b>		1,059,594	1,159,533
(Decrease)/increase in deposits		(224,553)	2,501,888
		835,041	3,661,421
Decrease/(increase) in debt and lease financing		(1,436,496)	(5,176,485)
<b>Change in net debt resulting from cash flow</b>		(601,455)	(1,515,064)
Non-Cash movements	30	5,286,818	(776,503)
<b>Change in net debt</b>	29	4,685,363	(2,291,567)
<b>Net debt at 1 January</b>		(2,620,875)	(329,308)
<b>Net funds/(net debt) at 31 December</b>		<u>2,064,488</u>	<u>(2,620,875)</u>

# Notes to the Accounts for the year ended 31 December 2006

## 1 Accounting policies

### **Accounting convention**

The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards.

### **Corporate restructuring**

During the previous period as part of its preparation for listing on Ofex the Group carried out a corporate restructuring by the introduction of a new holding company, Betex Group plc, incorporated on 12 May 2005. On 13 May 2005 Betex Group plc acquired the issued share capital of Betex Management Limited, the former holding company, by the issue of shares to shareholders on the basis of 100 Ordinary shares of 1p for every 1 Betex Management Limited Ordinary share of £1. Prior to 13 May 2005, Betex Group plc had not commenced trading or made any profits or losses. The directors considered that restructuring represented a change in the identity of the holding company rather than an acquisition and has been accounted for using merger accounting principles (see below).

### **Basis of preparation and consolidation**

These consolidated accounts include the accounts of the Company and all of its subsidiary undertakings drawn up to the same period end as the Group.

The results of subsidiaries acquired are consolidated for the periods from the date on which control passed to the Group, except where merger accounting is used (see above and below).

The Company has taken advantage of section 230 of the Companies Act 1985 not to publish its own Profit and Loss Account.

### **Merger accounting**

In the Group accounts, merged subsidiary undertakings are treated as if they had always been a member of the Group. Thus the comparatives in the Consolidated Profit and Loss Account has been included as a Pro-Forma to reflect the substance of the corporate restructuring (see above) incorporating the trading of Betex Management Limited and its subsidiaries from 1 January 2005 rather than just the date of the merger with Betex Group plc.

The shares issued by the Company as consideration will be shown as if they had always been in issue. Any difference between the nominal value of the shares acquired by the Company and those issued by the Company to acquire them is taken to other reserves.

Where merger accounting or merger relief is used, the investment is recorded in the Company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration paid.

### **Going concern**

The Group is at an early stage of development and has incurred trading losses in the first two years of trading. The Board has recognised the need for additional funding to enable the business to continue as a going concern. Since the year end they have taken further action to reduce the losses being incurred.

Following the events described in Note 31 'Post Balance Sheet Events', trading in the Group's shares on AIM was suspended. Although the Board believes that the uncertainties surrounding the operations in China have now been allayed the Company's Nomad did not consider that trading in the Group's shares should recommence and under the AIM rules the Company's shares were delisted. The Group has commitments for investment of a combination of equity and convertible loan capital of £0.75 million (net of expenses) from a group of existing shareholders to fund the ongoing operations of the business. The Board has prepared financial forecasts to 31 December 2008 and considers it is reasonable to assume that following the completion of asset sales and this investment the Group has adequate working capital for this period. However, there can be no certainty in this regard and it may be necessary during this period for the Group to raise further funds for additional working capital and repay the convertible loan capital.

After due consideration of the facts, assumptions and proposed actions, the Board believe that it is appropriate to prepare the accounts on the going concern basis, and these accounts do not include any adjustments that would result if the Group was unable to continue as a going concern.

### **Acquisitions and goodwill**

Goodwill on the acquisition of subsidiary undertakings arises when the fair value of purchase consideration exceeds the fair value of identifiable fixed assets, other assets and liabilities acquired. It is capitalised and the Directors carry out an impairment review after the completion of the first year of trading following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. Any resulting reduction in value is charged through the profit and loss account.

### **Revenue recognition, turnover, gross win and gross profit**

#### **United Kingdom**

Turnover represents the amounts staked in respect of bets placed by customers on events which occurred during the period.

Cost of sales represents payouts to customers net of the results of hedging bets, together with Betting Duty payable and commissions payable to agents.

Gross win or loss represents turnover less customer payouts net of the results of hedging bets. Gross profit or loss represents the gross win or loss after deducting Betting Duty, non-recoverable Sales Tax and commissions payable.

The net results of proprietary bets placed by the Group are shown as other trading income or costs.

#### **China**

Turnover represents direct sales of services to customers, and fees receivable from the government lottery authorities in China either based on gross lottery revenues in the province or on retail lottery sales in the provinces in which the Group has operations.

Cost of sales represents payouts to customers, together with non-recoverable sales tax and commission payable to agents.

### **Tangible assets**

Tangible fixed assets are stated at cost less accumulated depreciation.

Where in the opinion of the directors, the Group's expenditure in relation to development of computer software and web sites results in future benefits, these costs are capitalised and amortised over the shorter of three years or the average period of future benefit. If there is insufficient or no evidence of future benefit the costs of developing the design and content are charged to the profit and loss account as incurred.

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

<b>Short leasehold land and buildings</b>	over period of lease
<b>Plant and machinery:</b>	
Fixtures, fittings and equipment	1 – 3 years straight line
Motor vehicles	3 – 4 years straight line
Computer	3 years straight line
<b>Computer software and web site development</b>	3 years straight line or less

### **Other investments**

These principally represent investments made in provincial government Lottery Management Centres in the People's Republic of China, where the Group has management contracts with that Lottery Management Centre, together with their costs of acquisition.

These investments are being amortised over the life of the relevant contracts

### **Share-based payments**

The Group has applied the requirements of FRS 20 Share-based Payments. In accordance with the Standard it has been applied to all grants of equity instruments.

The Group issues equity-settled share-based payments to certain employees. These are measured at fair-value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair-value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Fair-value is measured by use of the Black-Scholes-Merton model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

No charge was made under FRS 20 in the 2005 accounts as the amount involved was not material. The amount involved has been included with the charge for the current year.

### **Stocks**

Stock is valued at the lower of cost and net realisable value.

### **Liquid resources**

Liquid resources consist of current assets that are disposable by the Group without curtailing or disrupting its business and are readily convertible into a known amount of cash at close to their carrying amount. They consist of short term deposits realisable at more than 24 hours notice.

### **Deferred taxation**

Full provision is made for deferred taxation resulting from timing differences between the recognition of gains and losses in the accounts and their recognition for tax purposes, except for deferred tax assets which are only provided to the extent that the Group anticipates making sufficient taxable profits in the near future.

Deferred tax is calculated at the tax rates which are expected to apply in the periods when the timing differences will reverse.

### **Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets translated into sterling at the rates of exchange ruling on the balance sheet date. Exchange differences which arise from translation of the opening net assets or initial costs and results of foreign subsidiary undertakings and from translating the profit and loss account at an average rate are taken to reserves.

### **Leasing and hire purchase commitments**

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised in the balance sheet and depreciated over their useful lives. The corresponding lease or hire purchase obligation is treated in the balance sheet as a liability.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

### **Pensions**

The Group operates a stakeholder pension scheme for its staff. At present the Group does not make contributions to this scheme. Defined pension contributions for senior executives are paid into their individual schemes and are charged to the profit and loss account as incurred.

## 2 Turnover

### Segmental information:

2006	Turnover £	Gross win/(loss) £	Gross profit/(loss) £	Operating Loss £	Net Assets/ (liabilities) £
<b>Lottery/China</b>					
Lottery fees	1,581,797	1,581,797	1,505,952		
Other lottery income	8,200,726	2,983,921	201,973		
	9,782,523	4,565,718	1,707,925	(1,199,921)	6,797,096
<b>Betting/UK</b>					
Customer stakes	11,018,488	520,511	446,141		
Other trading income	–	–	640,637		
	11,018,488	520,511	1,086,778	(1,502,913)	(3,344,064)
<b>Common Costs (UK)</b>				(4,572,175)	8,943,914
	20,801,011	5,086,229	2,794,703	(7,275,009)	12,396,946
<b>2005</b>					
<b>Lottery/China</b>					
Lottery fees	228,341	228,341	216,200		
Other lottery income	–	–	–		
	228,341	228,341	216,200	(231,966)	1,870,691
<b>Betting/UK</b>					
Customer stakes	133,080,816	(348,076)	(1,108,060)		
Other trading income	–	–	159,220		
	133,080,816	(348,076)	(948,840)	(2,375,323)	(1,967,531)
<b>Common Costs (UK)</b>				(774,415)	2,154,899
	133,309,157	(119,735)	(732,640)	(3,381,704)	2,058,059

Lottery fees are earned from investments with Sports Lottery Management Centres of provincial governments in the People's Republic of China. Other lottery income represents lottery software receipts and retail lottery sales commission also in the People's Republic of China. All betting operations are conducted under UK bookmakers' permits and through either a UK controlled web site or UK licensed betting shops.

Lottery software sales are made through an operating licence granted to an individual and by him through a network of agents. Under FRS 5 the Group has incorporated the gross turnover and direct costs from the agents' and licensee's activities in the consolidated accounts. Sales tax in China is only payable by companies, and not individuals, therefore the Group has only accrued this tax on the net amount (£133,796 RMB1,964,801) receivable by the subsidiary company concerned. If Sales tax was payable on the gross turnover an additional provision of £401,506 (RMB 5,896,122) would be required. However in the opinion of the Directors this is unlikely to be payable and no additional provision has been made in these accounts.

Following the events described in Note 31 'Post Balance Sheet Events' there is doubt as to the legality of the Lottery Software trading in China included under the heading 'Other Lottery Income' above. This will not be determined until after the individuals concerned have been brought to trial which may be some months away. The Group has received legal advice that, as far as the Group is concerned, the trading was not in contravention of the law in China, but until the matter is resolved by the courts that division has been closed down. Should it turn out that the trading was illegal the subsidiary company concerned could face a fine and the proceeds of the illegal trading confiscated. The Board has therefore decided that it would be prudent to make full provision against the net profit earned by that trade receivable from the licensed individual (£126,625 RMB 1,859,494), to write off the remaining cost of the software product (£18,159 RMB 266,665) and to cancel payment of the final instalment due on the software product (£19,625 RMB300,000).

### 3 Other trading income

	2006 £	2005 £
Proprietary bets placed by the Group:		
Amounts staked	(63,014,390)	(36,949,784)
Returns	63,655,027	37,109,004
Net trading income	640,637	159,220

### 4 Group operating loss

	Note	2006 £	2005 £
This is stated after charging:			
Exceptional items			
– impairment of goodwill	12	904,586	–
– provision for non-recovery of deposits	16	713,950	–
– consultancy and lobbying fees not resulting in new business		808,377	–
		2,426,913	–
Amortisation of goodwill	12	15,615	1,301
Depreciation of owned fixed assets	13	301,317	81,787
Impairment of owned fixed assets	13	18,159	–
Depreciation of assets held under finance leases and hire purchase contracts	13	1,890	1,890
Loss on disposal of fixed assets	13	–	5,080
Amortisation of investments	14	1,083,388	388,532
Operating lease rentals – land and buildings		353,101	109,139
Share based transaction costs	36	478,075	–

### 5 Loss on disposal of tangible fixed assets

	2006 £	2005 £
Loss on disposal of plant and machinery	(363,011)	–

### 6 Auditors' remuneration

	2006 £	2005 £
Fees receivable by the auditors and their associates in respect of:		
Audit of Group financial statements	82,011	70,000
Audit of subsidiaries pursuant to legislation	61,486	–
Other assurance work	3,000	–
Transaction services	–	88,770
Taxation services	14,495	10,000
	160,992	168,770

### 7 Directors' emoluments

	2006 £	2005 £
Emoluments	456,365	145,060
Company contributions to money purchase pension schemes	13,000	2,542
	469,365	147,602
Highest paid director:		
Emoluments	156,189	62,500
Company contributions to money purchase pension schemes	7,500	3,000
	163,689	65,500

#### Number of directors in company pension schemes:

	2006 Number	2005 Number
Money purchase schemes	2	2

## 8 Staff costs Group

	2006 £	2005 £
Wages and salaries	1,716,732	577,933
Social security costs	134,870	54,370
Other pension costs	17,583	2,542
	1,869,185	634,845

### Average number of employees during the year

#### UK

	Number	Number
Administration	14	5
Betting operations	27	10

#### China

Administration	53	2
Technical	11	–
Lottery operations	42	–
	147	17

## Company

	£	£
Wages and salaries	422,850	190,505
Social security costs	53,970	18,727
Other pension costs	17,583	2,542
	494,403	211,774

### Average number of employees during the year

#### UK

Administration	4	4
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## 9 Interest payable

	2006 £	2005 £
Bank loans and overdrafts	65,883	349
Interest on 5% Convertible Unsecured Loan Notes 2006	50,959	66,849
Interest on 5% Convertible Unsecured Loan Notes 2008	47,746	2,894
Amortised issue costs of 5% Convertible Unsecured Loan Notes 2006	443,515	116,715
Interest on 10% Convertible Loan Notes	–	14,978
Other loans	3,964	25,000
Finance charges payable under finance leases and hire purchase contracts	940	1,861
	613,007	228,646

## 10 Taxation

	2006 £	2005 £
<b>Analysis of charge in period</b>		
Tax on loss on ordinary activities	–	–
<b>Factors affecting tax charge for period</b>		
The difference between the tax assessed for the period and the standard rate of corporation tax are explained as follows:		
	2006 £	2005 £
Loss on ordinary activities before tax	(9,037,565)	(3,575,463)
Standard rate of corporation tax in the UK	30%	30%
	£	£
Loss on ordinary activities multiplied by the standard rate of corporation tax	(2,711,270)	(1,072,639)
Effects of:		
Expenses not deductible for tax purposes	1,432,462	47,566
Income not assessable for tax purposes	(612,141)	–
Capital allowances for period in excess of depreciation	66,002	3,540
Utilisation of tax losses	(114,857)	–
Losses carried forward for future offset	1,939,804	1,021,533
Current tax charge for period	–	–

### Factors that may affect future tax charges

No asset has been recognised in respect of the tax losses available to carry forward of approximately £9.4 million (2005: £3.6 million), as it is not currently considered more likely than not that the potential deferred tax asset of approximately £2.2 million (2005: £1.1 million) will be recoverable in the foreseeable future.

## 11 Loss per share

	2006 £	2005 £
Based on the retained loss for the period of	(8,802,129)	(3,553,432)
Weighted average number of shares:		
	Number	Number
For basic loss per share	124,066,419	56,676,193
Share warrants and Options	24,528,297	9,930,268
For diluted loss per share	148,594,716	66,606,461

The diluted loss per share has been presented as the same as the basic loss per share as the effect of the Share Warrants and Options is anti-dilutive for the year.

## 12 Intangible fixed assets

<b>Group</b>	<b>£</b>
	<b>Goodwill</b>
<b>Cost</b>	
At 1 January 2006	1,226,114
Additions	277,147
At 31 December 2006	<u>1,503,261</u>
<b>Amortisation and Impairment</b>	
At 1 January 2006	19,519
Amortisation provided during the year	15,615
Impairment	904,586
At 31 December 2006	<u>939,720</u>
<b>Net book value</b>	
At 31 December 2006	<u>563,541</u>
At 31 December 2005	<u>1,206,595</u>

The additions in the year principally represent the effective premium paid on incorporation of various subsidiary companies in China, being the proportion of shares given to the minority shareholders for the value of their services.

	<b>RMB</b>	<b>£</b>
Guangdong Le Ke Casual Lottery Bars Co. Ltd.	4,000,000	261,660
Beijing JiXinYa Technology Development Co. Ltd.	200,000	13,083
Arising on consolidation and exchange adjustments		2,404
		<u>277,147</u>

Following impairment tests undertaken by the Directors amounts have been written off to ensure that Goodwill is not stated in excess of its recoverable amount.

### 13 Tangible fixed assets

	Short leasehold land and buildings £	Computer software and web site development £	Plant and machinery £	Total £
<b>Group</b>				
<b>Cost</b>				
At 1 January 2006	–	299,552	495,319	794,871
Translation differences	–	–	(7,532)	(7,532)
Acquisitions	–	–	3,129	3,129
Additions	428,482	352,657	465,284	1,246,423
Disposals	–	(386,400)	(79,135)	(465,535)
At 31 December 2006	428,482	265,809	877,065	1,571,356
<b>Depreciation and impairment</b>				
At 1 January 2006	–	25,397	112,918	138,315
Translation differences	–	–	(336)	(336)
Acquisitions	–	–	204	204
Charge for the year	38,472	66,698	198,037	303,207
Impairment	–	18,159	–	18,159
On disposals	–	(1,517)	(41,496)	(43,013)
At 31 December 2006	38,472	108,737	269,327	416,536
<b>Net book value</b>				
At 31 December 2006	390,010	157,072	607,738	1,154,820
At 31 December 2005	–	274,155	382,401	656,556

	2006 £	2005 £
Net book value of plant and machinery included above held under finance leases and hire purchase contracts	–	3,779

	Short leasehold land and buildings £	Computer software and web site development £	Plant and machinery £	Total £
<b>Company</b>				
<b>Cost</b>				
At 1 January 2006	–	197,002	101,531	298,533
Additions	244,619	293,273	41,160	579,052
Disposals	–	(377,300)	(20,541)	(397,841)
At 31 December 2006	244,619	112,975	122,150	479,744
<b>Depreciation</b>				
At 1 January 2006	–	–	(8,810)	(8,810)
Charge for the year	(29,587)	(1,497)	(49,029)	(80,113)
On disposals	–	–	9,112	9,112
At 31 December 2006	(29,587)	(1,497)	(48,727)	(79,811)
<b>Net book value</b>				
At 31 December 2006	215,032	111,478	73,423	399,933
At 31 December 2005	–	197,002	92,721	289,723

## 14 Investments

	<b>Other investments £</b>	
<b>Group</b>		
<b>Cost</b>		
At 1 January 2006	5,024,461	
Currency translation adjustment	(379,243)	
Additions	5,882,761	
At 31 December 2006	<u>10,527,979</u>	
<b>Amortisation and impairment</b>		
At 1 January 2006	(388,532)	
Currency translation adjustment	60,421	
Amortisation provided during the year	(1,083,388)	
Impairment	(486,329)	
Provision	(664,209)	
At 1 January 2006	<u>(2,562,037)</u>	
<b>Net book value</b>		
At 31 December 2006	<u>7,965,942</u>	
At 31 December 2005	<u>4,635,929</u>	
	<b>2006 £</b>	<b>2005 £</b>
<b>Analysis of other investments</b>		
Unlisted investments	688,523	–
Provisions	(664,209)	–
	<u>24,314</u>	–
Investments with Chinese provincial government sports lottery management centres	9,839,456	5,024,461
Amortisation and impairment	(1,897,828)	(388,532)
	<u>7,941,628</u>	<u>4,635,929</u>
	<u>7,965,942</u>	<u>4,635,929</u>

The Unlisted investments represent a 6.06% holding in the Euro VIP Club at the Grand Waldo Casino, Macau. Following a decision by the Board to dispose of this investment it has been fully provided against, as it is uncertain what value will be achieved from the disposal or when such value will be received.

They also represent a 49% shareholding in Tianjin Copia Tele-Link Technology Co. Ltd. ("Tianjin"). This latter shareholding was acquired as part of a larger acquisition by one of the Group's Chinese subsidiaries. The majority shareholder of Tianjin is a competitor of the Group in China. The behaviour of this shareholder, who is also the legal representative of that company, and the limited power granted to minority shareholders under Chinese company legislation means that the Group does not have significant influence over the management of that company. Full provision has been made for the Group's share of its losses arising during the year.

Following changes in the regulations affecting mobile phone suppliers in The People's Republic of China, the Group may not be able to proceed with one of the Mobile Lottery licences it acquired during the year and the value of this asset has been written down to £nil. The Directors have also carried out impairment tests on the value of the other contract and made an additional provision to recognise the delays in bringing content on stream.

## 14 Investments (continued)

For details of the various investments with Chinese provincial government sports lottery management centres see Note 35 below.

### Company

	Investments in subsidiary undertakings £	Other investments £	Total £
<b>Cost</b>			
At 1 January 2006	2,666,569	829,460	3,496,029
Reclassification of cost as debt due from subsidiary company	(328,064)	–	(328,064)
Additions	5,531,772	505,114	6,036,886
At 31 December 2006	7,870,277	1,334,574	9,204,851
<b>Amortisation and impairment</b>			
At 1 January 2006	–	(90,384)	(90,384)
Amortisation provided during the year	–	(233,518)	(233,518)
Provisions	(966,616)	–	(966,616)
At 31 December 2006	(966,616)	(323,902)	(1,290,518)
<b>Net book value</b>			
At 31 December 2006	6,903,661	1,010,672	7,914,333
At 31 December 2005	2,666,569	739,076	3,405,645

Other investments represent costs incurred in respect of investments with Chinese provincial government sports lottery management centres.

The Company holds 20% or more of the share capital of the following companies:

Company	Country of registration or incorporation	Ordinary Shares % Held	Activity
<b>Subsidiary undertaking</b>			
Betex Management Limited	England and Wales	100%	Management services
Capital Sports (Retail) Limited	England and Wales	100%	Retail betting
Beijing Global Sports Management Co. Ltd.	People's Republic of China	100%	Lottery management
Beijing Betex Business Management Co. Ltd.	People's Republic of China	100%	Management services
Betex (Guangzhou) Management & Consultancy Co Ltd	People's Republic of China	100%	Lottery retail management
Ramsgill Limited	British Virgin Islands	100%	Management services
<b>Subsidiaries held by Betex Management Ltd.</b>			
Betex Limited	England and Wales	100%	Online and telephone betting
Betex (VIP) Limited	England and Wales	100%	Investment company
<b>Subsidiaries held by Beijing Global Sports Management Co. Ltd.</b>			
GuiZhou Global Sports Technology Co Ltd	People's Republic of China	80%	Lottery management
Beijing Global Marketing & Planning Co. Ltd	People's Republic of China	100%	Lottery management
Guangdong Le Ke Casual Lottery Bars Co. Ltd.	People's Republic of China	60%	Retail lottery sales
Beijing Copia Tele-Link Technology Co. Ltd.	People's Republic of China	80%	Mobile lottery sales
<b>Subsidiaries held by Beijing Global Marketing &amp; Planning Co. Ltd</b>			
Beijing Lottery Technology Development Co. Ltd.	People's Republic of China	100%	Lottery technology development
<b>Subsidiaries held by Beijing Lottery Technology Development Co. Ltd.</b>			
Beijing JiXinYa Technology Development Co. Ltd.	People's Republic of China	80%	Lottery marketing
<b>Investment held by Beijing Copia Tele-Link Technology Co Ltd (see above)</b>			
Tianjin Copia Tele-Link Technology Co. Ltd.	People's Republic of China	49%	Mobile lottery sales

## 14 Investments (continued)

On 31 August 2006, Beijing Global Sports Management Co. Ltd. ('BGSM') acquired 80% of the share capital of Beijing Copia Tele-Link Technology Co. Ltd., with effect from 1 October 2006. This has been accounted for using the acquisition method of accounting. Details of this acquisition are set out below:

	Book Value RMB	Fair Value Adjustments RMB	RMB	Fair Value £
Fixed assets	44,718	–	44,718	2,981
Investment Unlisted (see above)	490,000	–	490,000	32,667
Investments with Chinese provincial government sports lottery management centres	–	9,892,445	9,892,445	659,496
Debtors	9,667,477	–	9,667,477	644,498
Cash	8,673	–	8,673	578
Creditors	(567,369)	–	(567,369)	(37,825)
<b>Net assets acquired</b>	<b>9,643,499</b>	<b>9,892,445</b>	<b>19,535,944</b>	<b>1,302,395</b>
		80%	<b>15,628,755</b>	<b>1,041,917</b>
Consideration:				
Cash			5,400,000	360,000
Deferred payment			600,000	40,000
Shareholders' liabilities to company, assumed by BGSM			9,628,755	641,917
			<b>15,628,755</b>	<b>1,041,917</b>

## 15 Stocks

	2006 £	2005 £
Finished goods and goods for resale	3,486	–

The difference between the purchase price of stocks and their replacement cost is not material.

## 16 Debtors

	2006 £	2005 £
<b>Group</b>		
Trade debtors	477,271	393,573
Other debtors	2,340,919	2,099,266
Prepayments and accrued income	331,442	376,959
	<b>3,149,632</b>	<b>2,869,798</b>

Other debtors includes £1,519,760 (2005: £424,403) due from companies in the Global Group of companies, a related party (see Note 34 below).

Other debtors also includes £466,470 (2005: £1,008,854) of deposits with other bookmakers to provide credit for hedging and proprietary trading.

Following the closure of the internet betting site and the cessation of proprietary trading (see Note [31] below) it has proved difficult to recover a security deposit of £500,000 (2005: £500,000) held by the licensor of the internet software used by the subsidiary company and £213,950 of deposits with other bookmakers, therefore full provision has been made for their non-recovery.

## 16 Debtors (continued)

	2006 £	2005 £
<b>Company</b>		
Amount owed by Group undertakings and undertakings in which the Company has a participating interest *	1,256,804	5,210,310
Other debtors	1,858,600	246,809
Prepayments and accrued income	202,781	225,816
	3,318,185	5,682,935

\* Due after more than one year

Other debtors includes £1,519,760 (2005: £110,161) due from companies in the Global Group of companies, a related party, (see Note 34 below).

## 17 Creditors : amounts falling due within one year

	2006 £	2005 £
<b>Group</b>		
Bank loans and overdrafts	1,439,131	–
5% Convertible Unsecured Loan Notes 2006	–	5,623,334
Obligations under finance lease and hire purchase contracts	–	2,635
Trade creditors	247,710	553,509
Other taxes and social security costs	188,263	250,395
Other creditors	1,736,701	3,020,346
Accruals and deferred income	332,288	293,790
	3,944,093	9,744,009

The bank loan of £1,439,131 (RMB 22,000,000) (2005: Nil) is secured against a deposit account of £1,577,335 held by the Company.

The 5% Convertible Unsecured Loan Notes 2006 were converted on 3 March 2006 when Betex Group plc was admitted to the Alternative Investment Market (AIM).

Other creditors includes £1,635,376 (RMB 25,000,000) (2005: £2,732,830 [RMB 38,000,000]) deferred purchase consideration in respect of a Chinese subsidiary's investment with a provincial government's sports lottery management centre.

	2006 £	2005 £
<b>Company</b>		
5% Convertible Unsecured Loan Notes 2006	–	5,623,334
Trade creditors	98,703	218,588
Other taxes and social security costs	5,759	–
Accruals and deferred income	188,602	241,124
	293,064	6,083,046

## 18 Creditors : amounts falling due after one year

	2006 £	2005 £
<b>Group</b>		
5% Convertible Unsecured Loan Notes 2008	1,043,535	707,019
Director's current account	–	276,029
Other creditors	–	295,875
	<u>1,043,535</u>	<u>1,278,923</u>

Interest accrued on the Loan Notes is payable either on their redemption or included with the principal on conversion.

All the Loan Notes are held by related parties (see Note 34 below). On 29 June 2007 £704,125 of the Loan Notes were repaid early (see Note 31 below).

	2006 £	2005 £
<b>Company</b>		
5% Convertible Unsecured Loan Notes 2008	1,043,535	707,019

## 19 Loans

	2006 £	2005 £
<b>Group and company</b>		
Analysis of maturity of debt:		
Within one year or on demand	1,439,131	5,623,334
Between one and two years	1,043,535	–
Between two and five years	–	707,019
	<u>2,482,666</u>	<u>6,330,353</u>

## 20 Obligations under finance leases and hire purchase contracts

	2006 £	2005 £
<b>Group</b>		
Amounts payable:		
Within one year	–	2,635

## 21 Deferred taxation

	2006 £	2005 £
<b>Group</b>		
Accelerated capital allowances	(231,760)	(11,753)
Tax losses carried forward	(9,608,177)	(3,572,387)
Total gross timing differences	<u>(9,839,937)</u>	<u>(3,584,140)</u>
Potential deferred tax asset @ 30%	<u>2,951,981</u>	<u>1,075,242</u>

## 22 Share capital

	2006 £	2005 £
Authorised:		
Ordinary shares of 1p each	3,000,000	2,000,000

The authorised share capital was increased by £1,000,000 by the creation of 100,000,000 Ordinary Shares of 1p each that rank *pari passu* in all respects with the existing shares of the Company subject to the rights and restrictions set out in the Articles of Association, at the Annual General Meeting of the Company held on 27 July 2006.

	2006 No	2005 No	2006 £	2005 £
Allotted, called up and fully paid:				
Ordinary shares of 1p each	135,041,206	70,490,059	1,350,411	704,900

### Movement in share capital

Issue Date	No of Shares	Subscription price	Value £
8 February 2006	367,700	13.6p	50,007
3 March 2006	22,472,294	27.2p	6,112,463
	40,000,000	34.0p	13,600,000
17 March 2006	147,100	13.6p	20,006
12 April 2006	1,316,953	17.0p	223,882
15 May 2006	147,100	13.6p	20,006
13 June 2006	100,000	22p	22,000
	64,551,147		20,048,364

The 22,472,294 shares issued on 3 March 2006 represent the conversion of the 5% Unsecured Convertible Loan Notes 2006. All other shares, including the 40,000,000 issued on the admission to AIM on 3 March 2006 and the other shares which were issued as the result of subscriptions under rights from warrants held, were issued for cash.

### Warrants issued

Warrants have been issued giving rights to subscribe for ordinary shares of the Company. Those outstanding are as follows:

Issue Date	No of Shares	Subscription price	Expiry date
3 June 2005	526,781	22p	2 June 2010
17 June 2005	10,435,619	22p	16 June 2010
21 June 2005	3,950,858	17p	20 June 2010
3 October 2005	230,833	32.5p	2 October 2010
3 March 2006	1,333,301	34p	3 March 2009
	16,477,392		

5,794,592 Warrants with a subscription price of 22p and 230,833 Warrants with a subscription price of 32.5p are held by Executive directors. 3,950,858 Warrants with a subscription price of 22p are held by non-executive directors. Senior executives hold 790,170 Warrants also with a subscription price of 22p.

### Options Issued

See Note 36 below for details of Options issued and outstanding.

## 23 Share premium

	2006 £	2005 £
<b>Group</b>		
At 1 January	4,304,680	19,211
Shares issued	19,402,853	5,257,561
Expenses of issue	(1,287,130)	(412,411)
Transfer to other reserves – Net Share Premium in subsidiary	–	(559,681)
At 31 December	22,420,403	4,304,680
	2006 £	2005 £
<b>Company</b>		
At 1 January	4,304,680	–
Shares issued	19,402,853	4,692,093
Expenses of issue	(1,287,130)	(387,413)
At 31 December	22,420,403	4,304,680

## 24 Other Reserve

	2006 £	2005 £
<b>Group</b>		
At 1 January	559,681	–
Arising in the year (see Note 23 above)	–	559,681
At 31 December	559,681	559,681

## 25 Profit and loss account

	2006 £	2005 £
<b>Group</b>		
At 1 January	(3,500,678)	–
Loss for the financial year	(8,802,129)	(3,553,432)
Share based payments	478,075	–
Net exchange differences on the retranslation of net investments	(406,211)	52,754
At 31 December	(12,230,943)	(3,500,678)
	2006 £	2005 £
<b>Company</b>		
At 1 January	(2,421,342)	–
Loss for the financial year	(8,168,867)	(2,421,342)
Share based payments	478,075	–
At 31 December	(10,112,132)	(2,421,342)

## 26 Minority interest

	2006 £	2005 £
<b>Group</b>		
Share of cumulative losses in Chinese subsidiaries	(304,833)	(22,031)
Share of net exchange differences on the retranslation of net assets	7,433	–
Share of fair value of contracts	129,423	–
Shares held in Chinese subsidiaries	418,005	11,507
At 31 December	297,394	(10,524)

## 27 Reconciliation of movement in equity shareholders' funds

	2006 £	2005 £
<b>Group</b>		
At 1 January	2,068,583	335,002
Loss for the financial year	(8,802,129)	(3,553,432)
Net exchange differences on the retranslation of net investments	(406,211)	52,754
Shares issued	18,761,234	5,234,259
Share based payments	478,075	–
At 31 December	12,099,552	2,068,583
	2006 £	2005 £
<b>Company</b>		
At 1 January	2,588,238	–
Loss for the financial year	(8,168,867)	(2,421,342)
Shares issued	18,761,234	5,009,580
Share based payments	478,075	–
At 31 December	13,658,681	2,588,238

## 28 Gross cash flows

	2006 £	2005 £
<b>Group</b>		
<b>Reconciliation of operating loss to net cash inflow from operating activities</b>		
Operating loss	(7,275,009)	(3,381,704)
Depreciation and impairment charges	321,366	83,677
Amortisation and impairment of intangible fixed assets	920,201	1,301
Amortisation of investments	1,083,388	388,532
Share-based transaction costs	478,075	–
Currency translation adjustments	(12,339)	–
Increase in stocks	(3,486)	–
Increase in debtors	(279,834)	(1,883,330)
(Decrease)/increase in creditors	(2,184,982)	846,403
	(7,013,040)	(3,945,121)
	2006 £	2005 £
<b>Returns on investments and servicing of finance</b>		
Dividends received	20,720	–
Interest received	343,280	34,887
Interest paid	(120,806)	(40,327)
Interest element of finance lease rental payments	(940)	(1,861)
Finance costs on issue of 5% Convertible Loan Notes 2006	(443,515)	(116,715)
	(201,261)	(124,016)
<b>Capital expenditure</b>		
Payments to acquire tangible fixed assets	(1,246,423)	(438,978)
Payments to acquire investments	(5,235,646)	(2,238,877)
Receipts from sales of tangible fixed assets	59,511	6,099
	(6,422,558)	(2,671,756)
<b>Acquisition of subsidiaries</b>		
Payments to acquire subsidiary undertakings	(797,764)	(53,525)
Cash acquired with subsidiary	–	60,499
	(797,764)	6,974

## 28 Gross cash flows (continued)

### Management of liquid resources

Longer term deposits	(1,577,335)	–
7 Day deposit account balance	1,801,888	(2,501,888)
	224,553	(2,501,888)

### Financing

Issue of share capital (net of issue costs and loans converted)	13,137,900	4,827,348
Issue of shares in subsidiaries to minority	406,498	11,507
New loans raised	1,727,901	5,556,485
Capital element of finance lease rental payments	(2,635)	–
	15,269,664	10,395,340

## 29 Analysis of changes in net debt

	At 1 Jan 2006 £	Cash flows £	Non-cash changes £	At 31 Dec 2006 £
Cash at bank and in hand	1,210,225	1,059,594	–	2,269,819
7 Day bank deposits	2,501,888	(1,801,888)	–	700,000
Longer term bank deposits	–	1,577,335	–	1,577,335
	3,712,113	835,041	–	4,547,154
Debt due within 1 year	(5,623,334)	(1,439,131)	5,623,334	(1,439,131)
Debt due after 1 year	(707,019)	–	(336,516)	(1,043,535)
Finance leases	(2,635)	2,635	–	–
	(6,332,988)	(1,436,496)	5,286,818	(2,482,666)
Total	(2,620,875)	(601,455)	5,286,818	2,064,488

## 30 Major non-cash transactions

	2006 £	2005 £
Conversion of 5% Convertible Unsecured Loan Notes 2006	5,623,334	–
Issue of 5% Convertible Unsecured Loan Note 2008 to repay Director's current account	(288,770)	–
Issue of 5% Convertible Unsecured Loan Note 2008 to acquire subsidiary	–	(704,125)
Interest accrued on convertible Unsecured Loan Notes	(47,746)	(69,743)
Finance lease in subsidiary acquired	–	(2,635)
	5,286,818	(776,503)

## **31 Post balance sheet events**

### **Arrest of Staff in China and suspension of Lottery Software trading**

On 13 April 2007 the Group received information that two of the senior staff at its Beijing operation had been detained and that a further senior staff member was being (and is still being) sought by the Chinese police authorities in the province of Jilin. The Group was later informed that one further junior employee of Beijing Lottery Technology Company Limited (BLTD), the Chinese subsidiary company operating the lottery software consultancy product, had been detained, together with one of the agents contracted to BLTD to distribute the software product.

The initial legal report indicated that the detained individuals are being investigated over alleged involvement in the crimes of 'Gambling' and 'Illegal Operations'. One of the senior staff members is believed to have been detained in his capacity as the legal representative of BLTD. The police investigation does not extend into the Group's other activities in China. The police authorities have restricted access to the BLTD bank account and other bank accounts connected with the operation of the software product but there have been no restrictions placed on the Group's other accounts in China.

The lawyers' opinion issued to the Group is that neither the staff member acting in the capacity of the legal representative of BLTD, nor BLTD itself, should be convicted of the crime of Gambling. The lawyers have confirmed that under the Chinese Criminal Litigation Law there is no claim against the Group arising from the investigation into BLTD. The Board believes that the alleged illegal activity relates to conduct by these individuals but that the question of the legality of the Group's lottery software product will not be determined until after the individuals concerned have been brought to trial which may be some months away. It does not call into question the conduct of the Group in its other operations in China. While the investigation is ongoing the Group has voluntarily imposed a nationwide suspension of sales of that software product and has made provision in these accounts for non-recovery of amounts due from the licensee of the software and against the cost of the software product.

Owing to the uncertainty surrounding the situation, and the significance of these operations to the financial performance of the Group, the Board requested a temporary suspension of trading in the Group's shares on AIM pending clarification of the situation. Despite the Board's best efforts over the six months to October 2007 the Group's Nomad did not believe that the suspension should be lifted at this time and under AIM rules the Group's shares were delisted.

### **Closure of UK Internet Betting Operation and Proprietary Trading**

The Board reviewed the operation of the Group's Internet Betting operation in light of the new Gaming Commission requirements and developments in the operation of Internet Gaming generally and decided to close this operation on 15 May 2007. Six staff were made redundant.

Following the events noted above and the uncertainty over the Group's financial position generated by this, the Board decided to close the UK Proprietary Trading operation and the remaining staff of Betex Limited, the subsidiary concerned, were made redundant.

### **Resignation of Directors**

Also following the events noted above on 11 May 2007 Peter Greenhill, CEO and Stuart Barker, CFO, resigned from the Board and the Group. At that date the Group had not been able to secure absolute written assurances that as individuals, they would be able to travel unhindered to China. Therefore they felt that they were unable to perform their roles as they would like to, and to the best effect for the Group.

Jeremy Longley was appointed as COO on the same date and the Chairman, Dr Johnny Hon, is acting as CEO on a temporary basis and the Company Secretary, Simon Spector, has been acting as CFO. All of these three executives have since that date travelled unhindered to China.

Philip Goodmaker also resigned on 11 May 2007 and Alexander von Franckenstein was appointed in his place.

### **Sale of Capital Sports (Retail) Limited**

On 1 June 2007, the Board accepted an offer to acquire the entire share capital of its subsidiary Capital Sports (Retail) Limited. As a result they have re-assessed the value of Goodwill carried in the accounts to its realisable value. On completion of the sale the Company has agreed to waive the amount owed to it at 31 December 2006 of £902,458.

### 31 Post balance sheet events *(continued)*

#### Early repayment of 5% Convertible Unsecured Loan Note 2008

On 29 June 2007 the Board agreed to the early repayment of £704,125 5% Convertible Unsecured Loan Note 2008 held by Global Group (Europe) plc. The repayment amount of £759,683 (which includes accrued interest) was used to settle part of a debt due to the Group by Global Group (Europe) plc.

#### Issue of New shares and Convertible Secured Loan Notes

In order to provide funding for the Group's continuing operations in November 2007 the Board has agreed, subject to the appropriate approval at the AGM, to issue 5,000,000 Ordinary shares of 1p each at 5p per share and issue £500,000 of 7.5% Convertible Secured Loan Notes. The Loan Notes are repayable within 9 months of the date of issue, with the holders having an option to convert to ordinary shares either if new funds are raised during that period or at the end of this period.

### 32 Capital commitments

	2006 £	2005 £
Amounts contracted for but not provided in the accounts	16,003	130,878

### 33 Other financial commitments

At the year end the annual commitments under non-cancellable operating leases were as set out below:

	Land and buildings		Other	
	2006 £	2005 £	2006 £	2005 £
<b>Group</b>				
Operating leases which expire:				
within one year	30,668	11,000	–	139,657
between one and five years	467,027	–	–	–
in over five years	–	28,000	–	–
	497,695	39,000	–	139,657
	Land and buildings		Other	
	2006 £	2005 £	2006 £	2005 £
<b>Company</b>				
Operating leases which expire:				
between one and five years	159,692	–	–	–

### 34 Related parties

	J Hon £	Global Group £
Expenses re-imbursed	165,010	–
Services supplied to	–	441,845
Services charged by	–	(319,492)
Loan by Group	–	260,451
Global Bank Ltd balance covered by indemnity	–	818,367
Loan repaid by issue of Loan Notes	(288,770)	–
Interest accrued	(12,540)	(35,206)
Outstanding balances at 31 December 2006	–	1,509,760
31 December 2005	(276,029)	85,625
5% Convertible Unsecured Loan Notes held at 31 December 2006	(301,310)	(742,225)
Maximum balance during year	(301,310)	1,568,731

## **34 Related parties** *(continued)*

### **J Hon**

On 17 February 2006 Dr J S Hon was issued with 5% Convertible Unsecured Loan Notes 2008 in settlement of his loans to the Group. These accrue interest until either redeemed or converted into Ordinary Shares. Dr J S Hon still held these loan notes at 31 December 2006.

### **Global Group**

These are transactions with companies in which Dr J S Hon has either a controlling or substantial interest through The Hon Group Holdings Ltd (BVI).

The 5% Convertible Unsecured Loan Notes 2008 were issued in 2005 to Global Group (Europe) plc in settlement of the cost of acquisition of Capital Sports (Retail) Ltd. These accrue interest until either redeemed or converted into Ordinary Shares.

On 19 June 2007 the Group requested payment of the balance held on its behalf by Global Bank Limited, a former subsidiary of The Hon Group Holdings Ltd. Global Bank Ltd informed the Group that it could not repay the balance as it held an indemnity from Global Corporate Management Limited, a subsidiary of Global Group (Europe) plc, covering the repayment. As stated in Note 30 'Post Balance Sheet Events' above, part of this debt has been repaid by the early repayment of the 5% Convertible Unsecured Loan Note 2008 held by Global Group (Europe) plc.

Services provided by Global Group include rent £65,870 on premises occupied by the Group until July 2006, £68,323 on the provision of staff, £120,000 on provision of statistical football data, £5,271 on provision of equipment, £12,428 on PR services, £2,746 on legal services and £44,855 on other administrative services.

Services supplied to Global Group include £240,332 on fitting out premises occupied by Global Group from August 2006, rent, rates and service charges £177,593 on these premises, £14,422 on provision of equipment and £9,496 on other administrative services.

Invoices for the services described above remained unpaid at 31 December 2006 and together with the loan made by the Group to Global Group shown above appear to be in breach of Section 330(3)(b) & (c) of the Companies Act 1985. On 19 June 2007 the Group requested repayment of the whole outstanding balance and a schedule for this repayment has been agreed.

Payments of £762,167 (2005: £570,915), being part of the acquisition costs of the investments in Chinese provincial government Sports Lottery Management Centres, were made through Global Corporate Management Limited, a subsidiary of Global Group (Europe) plc. Neither Global Corporate Management Limited nor any other company controlled by Dr J S Hon had any beneficial interest in these transactions.

### **P Greenhill and S Barker**

Expenses re-imbursed were £29,145 and £20,584 respectively. There were no other transactions with the Group.

### **Li Haili**

Mr Li Haili, who is a minority shareholder in three of the Group's subsidiaries in China, was paid £340,434 (RMB 4,999,271) in consultancy fees. One of his minority shareholdings is in Beijing Copia Tele-Link Technology Co. Limited, which the Group acquired in the year, he received £196,245 (RMB 3,000,000) for the shares he sold and a further benefit of £65,415 (RMB 1,000,000) when this amount which he owed to that company was assumed by the Group under the terms of the purchase contract.

### **Betex**

The transactions and balances with companies in the Betex Group have not been disclosed in accordance with the exemption available in FRS 8.

## 35 Financial instruments

Treasury activities take place under procedures and policies monitored by the Board. They are designed to minimise the financial risks faced by the Group which primarily arise from interest rate, currency, credit and liquidity risks and information is given below. It is not the policy of the Group to trade in or enter into speculative transactions. As permitted by FRS 13 no further details are set out in respect of short-term debtors and creditors.

### Interest rate risks

The Group has financed its operations primarily through the issue of equity shares and fixed rate unsecured convertible loan notes. Floating rate assets consist of cash at bank and the Group receives interest on cash balances at rates linked to the Group's banker's base rate. The Group's borrowings in the UK are fixed rate convertible loan notes where the interest is accrued and either included in the conversion or payable on redemption; in China the Group has a fixed term, fixed rate bank loan where the interest is accrued and paid on redemption. The Group has no other assets or liabilities that are subject to interest rate fluctuations.

### Liquidity risk

The Group's treasury management policies are designed to ensure the continuity of funding.

### Credit risk

The Group has amounts due from Bookmakers and the Global Group of companies. Whilst every effort is being made to ensure the recoverability of these amounts and the Board believes that they will be received in full, these amounts are concentrated with relatively few counterparties and the Group cannot be certain that they will be fully recovered (See Note 16).

### Foreign currency risk

All normal trading activities with customers in foreign currencies are settled within seven days and consequently the Group does not have any significant foreign currency exposure. Payments for capital transactions in respect of overseas operations are normally paid within a very short time of contracts being agreed and consequently there is little foreign currency exposure. Bank deposits held in foreign currencies are subject to risk and the value of any movement in the currencies are recognised on a monthly basis in the profit and loss account.

### Financial assets

#### Bank deposits and balances

The interest rate profile of the Group's financial assets at 31 December 2006 was:

Currency	Total £	Fixed rate financial assets £	Financial assets on which interest is paid at a variable rate £
Sterling	1,931,233	700,000	1,231,233
US Dollars	1,629,694	1,577,335	52,359
Chinese Renminbi (RMB)	959,253	–	959,253
Hong Kong Dollars	26,974	–	26,974
Total	4,547,154	2,277,335	2,269,819

## 35 Financial instruments (continued)

### Other Investments

The Group has investments with Chinese provincial government Sports Lottery management centres the costs of which are amortised over the life of the relevant contracts. These contracts are held by the Group's Chinese subsidiaries and are denominated in Chinese Renminbi; receipts under the terms of the contracts are also in this currency. There are restrictions on the remittance of profits in overseas currencies from the People's Republic of China, however, the directors are of the opinion that any profits generated there will be able to be fully remitted to the United Kingdom. The details of the investments are as follows:

	Amortised Cost at 31 December 2006 £	% of Lottery Sales Receivable %	Remaining Contract Life Months
GuiZhou	1,026,319	2.00	33*
Hebei	2,026,498	1.30	40
Hebei – Instant lottery and Scratch Cards	4,651,979	4.00	117**
Ningxia – Mobile phone lottery	236,832	5.95	50#
Hunan – Mobile phone lottery	–	5.95	40##
	7,941,628		

\*The GuiZhou contract guarantees a total return of 300% on the Group's investment by September 2009. If this is not achieved then the contract is automatically extended until this return has been achieved.

\*\*The Instant lottery and Scratch Cards were launched in February 2007 and the contract costs will be amortised over its remaining life from that date.

# The Ningxia mobile phone lottery sales have not yet been launched and therefore the Directors have decided to make a provision against the cost to reflect its fair value.

## Following changes in regulations in China regarding add-in services for mobile phones it may not prove possible to implement this contract and therefore full provision has been made against the acquisition cost in these accounts.

### Financial liabilities

The interest rate profile of the Group's financial liabilities at 31 December 2006 was:

Currency	Total £	Fixed rate financial liabilities £	Financial liabilities on which no interest is paid £
Sterling	1,043,535	1,043,535	–
Chinese Renminbi (RMB)	3,074,507	1,439,131	1,635,376
Total	4,118,042	2,482,666	1,635,376

Currency	Interest rate %	Fixed rate financial liabilities Weighted average period for which rate is fixed Years	Financial liabilities on which no interest is paid Weighted average period until maturity Years
Sterling	5.000	1.69	–
Chinese Renminbi (RMB)	5.022	0.50	1

### 35 Financial instruments (continued)

#### Currency exposures

As at 31 December 2006 the Group had a foreign currency settlement exposure of RMB 25 Million (£1,635,376) in respect of deferred consideration for the investment in respect of the instant lottery and scratch cards with a provincial government sports lottery management centre in the People's Republic of China.

It also had a foreign currency settlement exposure of RMB 22 Million (£1,439,131) in respect of a short term bank loan by one of the Group's Chinese subsidiaries, secured on the Groups US\$ deposit account.

#### Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31 December 2006 was as follows:

	£
Within one year or on demand	3,074,507
Between one and two years	1,043,535
	<u>4,118,042</u>

### 36 Share-based payments

The Company has a share option scheme known as 'The Betex Group plc Unapproved Share Option Scheme' for executive directors and employees of the Company and its subsidiaries. The Company may place limitations on the exercise of the options and specify an Option period. Options may [be] forfeited when an employee leaves the Group either before the options vest or under defined circumstances.

Details of the share options outstanding during the year are as follows:

	Number of share options	2006 Weighted average exercise price (p)	Number of share options	2005 Weighted average exercise price (p)
<b>Outstanding</b>				
At 1 January	3,000,000	34.50	–	–
Granted during the year	6,100,000	60.15	3,000,000	34.50
Forfeited during the year	(125,000)	(60.00)	–	–
At 31 December	<u>8,975,000</u>	<u>51.58</u>	<u>3,000,000</u>	<u>34.50</u>
<b>Exercisable</b>				
At 31 December	<u>3,000,000</u>	<u>34.50</u>	<u>–</u>	<u>–</u>

Options outstanding at 1 January and 31 December 2006 and exercisable at 31 December 2006 include 2,500,000 options to executive directors and 500,000 to a senior executive at an exercise price of 34.5p. The estimated fair value of the options granted on that date is £86,940.

On 30 March 2006 the Company allotted 5,250,000 options to executive directors, 550,000 (net of leaver) to senior executives and 475,000 (net of leaver) to senior staff at an exercise price of 60p subject to a time elapsed option period. The estimated fair value of the options granted on that date is £560,453.

On 5 May 2006 the Company allotted 50,000 options to a non-executive director at an exercise price of 79p subject to a time elapsed option period. The estimated fair value of the options granted on that date is £8,790.

The inputs into the Black-Scholes-Merton model are as follows:

	2006
Weighted average share price	51.58p
Weighted average exercise price	51.58p
Expected volatility	50%
Expected life	4
Risk Free Rate	4.88%

Expected volatility was based on management's best estimate of volatility of the Group's share price due to the limited availability of historic data and marketability prior to entry to AIM in March 2006. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

# BETEX GROUP PLC

("the Company")

(Registered and incorporated in England and Wales with Company number 5450662)

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the Company will be held at the offices of S J Berwin LLP at 10 Queen Street Place, London EC4R 1BE on 27 December 2007 at 11.00 a.m. for the following purposes:

### Ordinary Business

To consider, and if thought fit, pass the following Ordinary Resolutions:

#### Resolution 1

To receive and adopt the Company's Accounts for the year ended 31 December 2006 together with the last directors' report, the last directors' remuneration report and the auditors' report on those accounts and the auditable part of the remuneration report and comprehensive business review.

#### Resolution 2

To re-appoint PKF(UK) LLP as auditors of the Company to hold office until the conclusion of the next General Meeting at which accounts are laid before the Company at a remuneration to be determined by the directors.

#### Resolution 3

To re-elect Dr Johnny Hon as a Director of the Company who retires by rotation.

#### Resolution 4

To re-elect Stephen Davidson as a Director of the Company who retires pursuant to Article 82 of the Articles of Association of the company.

#### Resolution 5

To re-elect Jeremy Longley as a Director of the Company who retires pursuant to Article 82 of the Articles of Association of the company.

#### Resolution 6

To re-elect Alexander Von Franckenstein as a Director of the Company who retires pursuant to Article 82 of the Articles of Association of the company.

#### Resolution 7

To re-elect Simon Spectors as a Director of the Company who retires pursuant to Article 82 of the Articles of Association of the company.

### Special Business

To consider, and if thought fit, pass the following resolutions, of which Resolutions 8 will be proposed as an ordinary resolution and Resolution 9 will be proposed as a special resolution:

#### Resolution 8

That, in substitution for all previous like authorities, which are hereby revoked save to the extent relied upon prior to the passing of this resolution, pursuant to and in accordance with Section 80 of the Companies Act 1985 the Directors be and hereby generally and unconditionally are authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £604,911.27 being an amount equal to the outstanding options, convertible loan notes and warrants granted by the Company and including approximately one third of the current issued share capital of the Company and provided that this authority shall expire on whichever is the earlier of the conclusion of the Annual General Meeting of the Company next following the passing of this Resolution or the date 15 months from the date that this Resolution 8 comes in effect, save that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

## Resolution 9

THAT in substitution for all previous like authorities and subject to the passing of the previous resolution, the board be and it is hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities

- (i) in connection with a rights issue in favour of Ordinary shareholders where the equity securities respectively attributable to the interests of all Ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of Ordinary shares held by them and,
- (ii) otherwise than pursuant to sub-paragraph (i) above of equity securities up to an aggregate nominal value of £722,995.50 being an amount equal to the existing authority granted on 27 July 2006, and shall expire on whichever is the earlier of the conclusion of the Annual General Meeting of the Company next following the passing of this Resolution or the date 15 months from the date that this Resolution 9 comes into effect, save that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

30 November 2007

By Order of the Board

Registered Office:

5th Floor

6 Broad Street Place

London

EC2M 7JH

S Spector FCA

Company Secretary

### Explanatory Notes:

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders on the register of members of the Company as at 9.30 a.m. on 24 December 2007 or, if the meeting is adjourned, on the register of members of the Company 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend or vote at the above general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register after 9.30 a.m. on 24 December 2007 or, if the meeting is adjourned, on the register of members of the Company 48 hours before the time fixed for the adjourned meeting, shall be disregarded in determining the rights of any person to attend and vote at the meeting.
2. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear UK of Ireland Limited specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID RA1 0) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK of Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
3. A member of the Company is entitled to appoint another person as his proxy to exercise all or any of his rights to attend and to speak and vote at a meeting of the Company. A proxy need not be a member of the Company. A member may appoint more than one proxy in relation to a meeting provided that each proxy is appointed to exercise the rights attached to different shares held to them. A Form of Proxy accompanies this document for your use. To be valid, Forms of Proxy together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof must be deposited at the offices of the Company's Registrars, Computershare Investor Services Limited, PO BOX 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.  
  
Deposit of a Form of Proxy will not prevent a member from attending and voting in person should he so wish.
4. A register of Directors' interests in the share capital and debentures of the Company, together with copies of service agreements under which Directors of the Company are employed, is available for inspection at the Company's registered office during normal business hours and will also be available for inspection at the Annual General Meeting for at least 15 minutes prior to and during the meeting.

## **Notice of Meeting**

**for the year ended 31 December 2006**

### **Explanatory notes to resolutions:**

**Resolution 1:** The Directors must lay the financial statements and the respective reports of the Directors and auditors before shareholders at a General Meeting.

**Resolution 2:** At each General Meeting at which accounts are laid before the members, the Company is required to appoint auditors to stand until the next such meeting.

**Resolutions 3 to 7:** Under the Company's Articles of Association, each Director must stand for re-election every three years or if they have been appointed since the last Annual General Meeting. The Directors listed fall under these provisions and, being eligible, seek re-election.

**Resolution 8:** By Resolution 8, your Directors are seeking authority to allot share capital under section 80 of the Companies Act up to one third of the issued share capital of the Company as at 31 August 2007 (for purposes of existing obligations in respect of the allotment of shares and in respect of issues of shares in the capital of the Company since 31 December 2006), being in accordance with the guidelines issued by the Investment Protection Committees of the Association of British Insurers and the National Association of Pension Funds.

**Resolution 9:** By Resolution 9, your Directors are seeking the power to allot shares in the Company for cash without approaching all the existing shareholders up to the same amount as previously authorised.

## Shareholder Information

### Registrars

All enquiries relating to shares or shareholdings should be addressed to:

Computershare Investor Services  
The Registry  
PO Box 82, The Pavilions  
Bridgwater Road  
Bristol BS99 7NH  
Telephone 0870 702 0005

### **[www.betexgroup.plc.uk](http://www.betexgroup.plc.uk) and [www.betexgroupplc.com](http://www.betexgroupplc.com)**

The Company's website provides, amongst other things, the latest news and details of the Company's activities, share price details, share price information and links to the websites of our brands. The investor relations section of [www.betexgroupplc.com](http://www.betexgroupplc.com) contains up-to-date information including the Company's latest results and announcements.

### Lost Share Certificate

If your share certificate is lost or stolen, you should immediately contact Computershare Investor Services on 0870 702 0005 who will advise on the process for arranging a replacement.

### Duplicate shareholder accounts

If, as a shareholder, you receive more than one copy of a communication from the Company you may have your shares registered in at least two accounts. This happens when the registration details of separate transactions differ slightly. If you wish to consolidate such multiple accounts, please call Computershare Investor Services on 0870 702 0005.

### ShareGift

ShareGift, is a charity share donation scheme. It is a free service for shareholders wishing to give shares to charitable causes. It may be useful for those who wish to dispose of a small parcel of shares which would cost more to sell than they are worth. There are no capital gains tax implications (i.e. no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Further information can be found at [www.sharegift.org](http://www.sharegift.org).

## Contact us

5th Floor  
6 Broad Street Place  
London  
EC2M 7JH

Website: [www.betexgroupplc.com](http://www.betexgroupplc.com) or [www.betexgroup.plc.uk](http://www.betexgroup.plc.uk)

Email: [info@Betex.com](mailto:info@Betex.com)

Telephone: +44 (0)20 7448 7600

Fax: +44 (0)20 7448 7676

## Corporate Directory

### **Secretary**

S Spector FCA

### **Registered Office**

5th Floor  
6 Broad Street Place  
London  
EC2M 7JH  
Company Number 05450662

### **Registrars**

Computershare Investor Services  
PO Box 82, The Pavilions  
Bridgwater Road  
Bristol BS99 7NH

### **Auditors**

PKF(UK) LLP  
Chartered Accountants  
Farringdon Place,  
20 Farringdon Road  
London  
EC1M 3AP

### **Solicitors**

SJ Berwin LLP  
10 Queen Street Place  
London  
EC4R 1BE

### **Corporate Advisors & Stockbrokers**

Daniel Stewart & Company  
Becket House  
36 Old Jewry  
London  
EC2R 8DD



