

Betex 百泰斯

**Betex Group plc
Report and Accounts
31 December 2009**

Contents

Chief Executive's Statement	2
Commentary	
Comprehensive Business Review	3
Financial Statements	
Board of Directors	8
Corporate Governance Statement	10
Corporate Social Responsibility	13
Remuneration Report	14
Directors' Report	17
Statement of Directors' Responsibilities	20
Independent Auditors' Report	21
Results	
Consolidated Income Statement	23
Consolidated Statement of Comprehensive Income	23
Consolidated Balance Sheet	24
Company Balance Sheet	25
Statements of Changes in Equity	26
Statements of Cash Flows	27
Notes to the Accounts	28

Chief Executive's Statement

As I write this, I am acutely aware of the fact we are days away from the three year anniversary of the Company's suspension from trading on AIM. Obviously, this is not something to celebrate but we have at least successfully survived this experience where many others have failed. More importantly, a great deal has been achieved in that period and as a consequence the Company can look to the future with considerable optimism and on a sound financial footing.

The 2009 results clearly reflect this progress, with a positive EBITDA of £1,302,425 this year almost double that achieved in 2008 (£706,221). Although there was still an underlying loss of £387,477 this was a big improvement on the previous year (£1,161,756). These losses are due to our conservative depreciation policy and the costs of buying out our Chinese JV partner in Guizhou and Hebei and without the latter costs we would have been profitable for the year as a whole. Furthermore the Company showed a clear pre-tax profit in the final quarter and the business is now cash generative – both clear indications that our strategy is working.

Overall 2009 was a very good year. In China, following the necessary and protracted restructuring efforts that preoccupied much of our time in 2007 and 2008, we have been able to concentrate on growing the business. The new contract in Nanjing signals the first of several anticipated deals and sends a strong message to all stakeholders – Betex is back and positioned for growth. It was also significant in that it represented a first foray into the Welfare Lottery sector, which more than doubles our potential target market in China. Elsewhere, our existing contracts in Hebei and Guizhou performed in line with expectations and have provided a strong financial base from which we can develop new opportunities. Our Sports Lottery shops in Guangzhou continue to offer a valuable terrestrial presence which outweighs the small operational losses they have incurred each year to date. Recently, a combination of newly-introduced products and mooted regulatory changes have allowed us to reconsider the viability of a larger retail play going forward. We are exploring a number of new opportunities accordingly.

2009 also saw us welcome Jack Sun to the Board as our Chief Operating Officer for China. He has been instrumental in extending our network of Government contacts there, raising the profile and reputation of the Betex brand through sponsorship and PR, and co-ordinating our operations and new business activities in our core market. He and his colleagues in Beijing form a dynamic team and give me great confidence in our ability to deliver the business plan and with it exciting growth.

The PR strategy highlighted in my statement last year continued to good effect and, whilst concentrating on the Sports Administration Bureau, we nevertheless included a broad sweep to our promotional activity in order to raise Betex's profile across many other Government departments. I try not to forget that we are essentially guests in another country and it is important to behave accordingly if we are to continue to be welcomed to do business there. In addition to the well-received Bridge competition in the People's Conference Hall, Tiananmen Square, we held a second youth tennis tournament in Beijing which carried the sponsor name of Wan Li, the former Chairman of the National People's Congress. Wan Li, together with his family and indeed many others, has been a loyal and valued supporter of the Company and we are honoured by our association with him and the friendships this has fostered. I spend on average ten days a month in China, talking to potential partners, exploring new business opportunities and collecting air miles, and I always return reinvigorated and enthused by the potential of the country generally, and the lottery sector specifically. Betex sits on the cusp of real, global economic change, and operates in a country which is leading that change. The opportunities are great. However, the investment landscape in China, certainly in regard to lottery-related opportunities, has changed markedly since the Company first made inroads there.

As the overall lottery infrastructure has developed and matured, the need or requirement by provincial Lottery Management Centres for capital to fund expansion has dissipated. From a strategic perspective this will impact on both the viability and attractiveness of renewing some of our existing contracts as they fall due. Accordingly we are reviewing the Hebei co-management contract which expires this year. In anticipation of this general shift, we have re-positioned Betex as a lottery technology company, able to add real value and expertise to any lottery project above and beyond pure investment. This is very much a work in progress, but in addition to a growing in-house technology department in Beijing, we are also substantiating the overall technology proposition and capability through acquisition and strategic partnership. As soon as negotiations and agreements in this area are finalised, I will of course communicate the details to shareholders immediately.

Whilst from an operational and financial performance perspective the Company continues to go from strength to strength, I have not lost sight of the fact that shareholders remain frustrated by the inability to trade their shares. With this in mind, in early February I was delighted to announce the appointment of Alexander David Securities as corporate advisers. Further to a comprehensive review of our business, their mandate has been to explore a number of strategies, including a possible return to AIM, and I look forward to making a firm announcement regarding our intentions either before or at the AGM in early May.

As always, I would like to thank our shareholders for their patience – soon, I am sure, to be rewarded for it – our advisers for their support, my fellow directors for their time and commitment, and especially my team in China for their hard work throughout the year. As forecast, 2009 was a pivotal year for the Company in many ways, and consequently we have entered the Year of the Tiger appropriately strong, unified, and an entirely different animal to the one that came before.

Jeremy Longley
Chief Executive Officer

Comprehensive Business Review

Chinese Lottery

Provincial Agreements

Following the unexpected drop in revenue in 2008 from Sports Lottery products, in 2009 the economic stimulus introduced by the Chinese government resulted in an increase in sales of 5.6% from RMB27.9 billion to RMB29.5 billion.

2010 will see the introduction of several new products for the Sports Lottery and it is hoped this will further stimulate sales without too much cannibalisation of existing products.

	Gross Sports Lottery Revenue		% Change
All Provinces	2009	¥29,479,785,608	5.60%
	2008	¥27,917,148,331	
Hebei	2009	¥1,319,468,936	2.31%
	2008	¥1,289,642,506	
GuiZhou	2009	¥644,610,229	17.63%
	2008	¥547,989,007	

GuiZhou

GuiZhou in the South West of China is a fairly rural province, ranking towards the bottom of the list of provinces in terms of GDP and income per head. The province's gross revenue from the Sports Lottery has continued to grow vigorously at nearly 3 times the national growth rate and at RMB645 million is now more than 300% higher than 2005 when Betex first invested in the province.

Our gross earnings from the province amounted to £1,205,985 (2008: £849,311).

During the year the Group acquired our Chinese joint venture partner's minority interest in the project.

Hebei

Hebei is the province that surrounds Beijing and is larger, more industrialised and prosperous. As stated last year the province was badly effected by the economic slowdown and this malaise has continued into 2009 with growth less than half that of the national level. A number of new lottery games were introduced at the end of the year and it is hoped that these together with new senior management at the provincial Lottery Management Centre will revive the province's lottery sales performance.

Our gross earnings from the province amounted to £1,486,643 (2008: £1,284,504).

During the year we terminated a consultancy agreement with the Chinese company that also held the minority interest in our GuiZhou project.

The second investment we have with the Sports Lottery Management Centre in Hebei province is in the Scratch Card and Instant Lotteries. Gross Revenue held steady at RMB 334.3 million against RMB 332.66 million in 2008 and our earnings were £1,097,906 against £933,249 in 2008.

Guangzhou

As reported last year the retail operation in this city, in Guangdong province, was disappointing and most of the retail units were closed down in 2008. We now maintain the two flagship shops as a strategic investment and we have recently (in March 2010) applied for licences from the Guangdong Sports Lottery Management Centre to authorise sales of the new Jing Cai products from our outlets. The prospect of linking into other national on-line retail projects remains but the regulatory timeframe is still uncertain.

Financial Review

Continuing Operations

The Group's continuing operations are principally based in China with an administrative office in the UK for the Executive Directors based there.

The Group's reported turnover has increased to £3.83 million from £3.08 million partly as a result of the growth in sales of the Sports Lottery in China described above and partly from the favourable movement in exchange rates, generating a gross profit of £3.58 million compared with a gross profit of £2.91 million in 2008.

The administrative expenses of the business, net of exceptional items, continued to decrease from £2.2 million in 2008 to £1.7 million in 2009. The growing infrastructure in China has meant that their expenses have risen from £0.95 million to £1.04 million offset by a further reduction in UK costs.

Employee related expenses increased from £1,091,815 to £1,162,859. During 2009 staff numbers decreased slightly in China following the final closures of part of the retail operation there, however the movement in exchange rates lead to a higher wage cost.

2009 saw a change in management policy as emphasis switched from retrenchment and stabilisation to one of actively seeking new business right across China. As a result the cost of travel, subsistence and entertaining increased from £107,943 to £349,074. In accordance with IFRS 2 there is a charge of £61,140 (2008: £59,327) for the fair value of share options granted to Directors and staff and reflects the perceived increase in the value of the Company's share price.

Accommodation expenses continued to decrease as stated last year, falling from £250,928 to £187,081. It is anticipated that this cost will rise slightly in 2010 as the Group expands its operations in China.

In the past two years we have commented on monies due from a group of companies controlled by our former chairman Dr Johnny Hon. On 5 November 2009, after a counter legal action by Dr Hon and his associates was withdrawn, the company reached a settlement whereby £235,965 from the proceeds of a sale of Dr Hon's shares in Betex to third parties (which included non-executive directors of the Company) was paid in full and final settlement of the amounts due. As the company had claimed back over £80,000 under HM Revenue and Customs VAT bad debt scheme on invoices raised, we had to repay £24,953 being the VAT proportion of the recovery. The Company also incurred legal fees of £127,488 for its own action and dealing with the counter legal action.

Legal and professional costs fell from £643,897 to £197,104. Within this category audit and accountancy costs fell from £99,976 to £67,414 reflecting the benefit of the change in auditors in 2008 and solicitors fees fell from £134,242 to £32,765 after excluding the costs relating to the Dr Hon matters referred to above. Consultancy costs fell from £285,130 to a credit of £19,029 which reflects both the termination of the consultancy contract with Mr Li Haili in relation to the Hebei contract and the recovery of £30,890 (RMB400,000) by a Chinese subsidiary from a consultant who did not provide the service contracted for. Advertising and PR expenditure fell from £116,465 to £83,929 this is partly offset by the increase in travel and entertaining costs referred to above and is anticipated to continue at this level. Other professional costs increased from £10,607 to £25,705 and again this level is likely to continue in future years. Overall it is anticipated that legal and professional costs will increase slightly in 2010 reflecting the increased activity in China.

The Group acquired the minority shares held in two of its Chinese subsidiaries during the year. As part of this agreement we terminated consultancy agreements this minority shareholder had with the Group and this resulted in a one-off charge of £667,667 in the Income Statement to reflect the discounted loss of potential income through to 2014 by the consultant. The Group now has full control of all its operations in China.

Depreciation and amortisation decreased from £1,769,926 to £1,572,168. The decrease in amortisation reflects the shorter contract period for the Hebei Scratch Card project and the extension of the GuiZhou contract to 2014. This charge will decrease in 2010 following the completion of the original contract in Hebei.

The Group's positive EBITDA has increased from £706,221 in 2008 to £1,302,425 in 2009. The loss before taxation was £265,927 compared to £1,114,623 in 2008. The Group incurred a deferred tax charge in China, principally as a result of consolidating accounts prepared under IFRS by the Chinese subsidiaries, as opposed to accounts submitted to the tax authorities in China which are based on cash accounting rules. These rules also resulted in a Chinese income tax charge (equivalent to UK corporation tax) of £1,727. In addition we re-assessed the recoverability of deferred tax assets previously recognised and future cash flows and tax planning meant some of these assets amounting to £68,526 were unlikely to be realised before 2013 and they were therefore written back in the year. The loss after taxation therefore amounted to £576,350 or 0.38 pence per share, compared to £1,205,143 or 0.82 pence per share in 2008.

Discontinued Operations

These comprise the final costs and release of provisions for costs relating to the Mobile Lottery project in China closed during 2008.

Cash Position

During the year the Group generated cash from operating activities of £587,906 (2008:£70,565). As at 31 December 2009 the Group had £1,350,578 (2008: £1,130,685) of cash and liquid resources on its balance sheet. Net Debt amounted to £Nil (2008: £Nil).

All remittances from China to the UK are made in US Dollars. Currently the exchange rate between the US dollar and Sterling is fluctuating daily and in order to obtain some stability and certainty in the amounts we have available in the UK we have entered into a forward currency exchange contract to sell US Dollars at a fixed exchange rate. Because of the fluctuating exchange rate there is an exposure for the difference between the fixed exchange rate and the mid-market exchange rate.

The Group has no capital investment commitments (2008: £Nil), and 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.

Key Performance Indicators

The China operations 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 disposable 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.

Financial Indicators by Project

		GuiZhou	Hebei	Scratch Cards
Annual Return on Investment	2009	60.24%	39.73%	27.87%
	2008	51.21%	41.44%	27.06%
Overall Return on Investment to 31 December 2009		31.08%	61.67%	(15.92)%

Both the Annual Return and Overall Return percentages are based on the income received net of Chinese Sales Tax. The Scratch Card project is expected to give a positive overall return by the end of 2010.

Non Financial Indicators by Project

		GuiZhou	Hebei	Scratch Cards
Ranking by Sales	2009	21	10	16
	2008	22	10	17

This is the provinces' ranking in the table of Sports Lottery sales and Sports Lottery Scratch Card and Instant Sales by all 31 provinces.

Number of Sales Terminals	2009	2,100	5,283	3,200
	2008	1,500	5,092	2,454

Trading Outlook

Measures have been implemented to keep the central administrative costs to a minimum and contracts have been put into place to allow for UK monthly running costs to be recovered from the Chinese operations.

Following the shift in central government marketing efforts from Sports Lottery to Welfare Lottery sales in 2008 in China in the wake of the series of natural disasters there, we have seen the effects of the economic stimulus package introduced in the Chinese economy during 2009. However, overall Sports Lottery sales have shown an increase for the first few months of the current year over the same period in 2009 and we are optimistic of further growth.

In 2009 Hebei has performed in line with the national average when one includes products specific to that province. Our discussions with the Hebei LMC Director lead us to believe this growth will continue. The Hebei contract is due for renewal in the current year and negotiations are ongoing in this regard and we will inform shareholders of the outcome as soon as it is known.

GuiZhou province has continued to increase the number of sales points and consequently achieved an increase in sales of nearly three times the national average and again we believe this trend will continue as they plan to introduce new types of games during the current year.

New products for the scratch cards and instant lottery were introduced to replace the Olympic themed games of 2008 and sales held steady in 2009. The Lottery Management Centre has promised new marketing initiatives for 2010 and we anticipate that these will increase sales.

2009 was a difficult year for the city of Guangzhou and the economic problems coupled with extensive rebuilding work around one of our shops lead to a poor year for this operation. We have applied to turn the shops into ones capable of selling the new Jing Cai single match football lottery product, and if this licence is granted we may have to open a third shop as part of the pre-conditions applied by the LMC. However, we anticipate the additional product sales may bring this operation to a near break-even position by early 2011.

As previously reported, in February 2009 the Country Manager in Beijing, became a director and Chief Operating Officer of the Group. His work together with frequent and longer trips by the Executive Directors has meant that the Group has tightened its internal management and operational controls. PR sporting events held during 2009 for senior Government officials have strengthened our brand presence in the core market and consolidated the Group's position as the premier western Company in the China Lottery Sector.

As a result the Group has recently signed a contract to introduce a new style of retail outlet in Nanjing, the capital of Jiangsu province for the Welfare Lottery and we are also talking with a number of other provinces regarding projects in that sector.

We are in negotiations with a number of new provinces regarding future Sports Lottery projects both on individual products and on provincial wide contracts. Our links established with the Central Sports Lottery Management Department means we are now considered to be one of the key western partners for future projects.

In conclusion, the co-management operations are trading in line with, or slightly ahead of the Board's expectations. The new management team we are building based in Beijing together with the strategic input from London is providing the basis for expansion in 2010/11.

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 its operations.

Regulatory and Legislative Risks

In China the regulatory and legislative regime with regard to Lottery sales, payouts and gaming rules can change, sometimes at short notice, as evidenced by the sudden ban on online lottery ticket sales at the end of 2007. 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. In order to manage these risks as far as is possible, the Board endeavours to establish and maintain relationships with all key Government departments, including the Ministry of Finance and both the National Sports Lottery Bureau and National Welfare 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.

Currency Exchange Risk

The Group generates 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. However, at present it is anticipated that the peg between the US Dollar and the Renminbi will be maintained, and the Group believes it has adopted the best means of hedging against fluctuations in the US Dollar exchange rate.

Management of Risks

Each of the Executive Directors works daily in the business and is 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

Jeremy Longley (44)

Chief Executive Officer

Jeremy 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 as head of the UK operations until November 2006, and rejoined the Group in May 2007 as Chief Operating Officer.

Simon Spector (58)

Chief Financial Officer

Simon qualified as a Chartered Accountant in 1974. His career includes time as a partner in a large accountancy practice based in the City of London and the Home Counties. He had his own consultancy and accountancy practice for 20 years specialising in computerised accounting systems and working with growing companies, acting as finance director for a number of them. Simon has been with Betex Group plc since 2005 and was instrumental in the original IPO on OFEX in 2005, becoming Chief Financial Officer in May 2007.

Kaiyi (Jack) Sun (35)

Chief Operating Officer

Jack has over eight years of international finance experience and is a member of the Association of Chartered Certified Accountants (ACCA). He graduated with a business accounting degree from Oxford Brookes University and an MSc in international business from Birkbeck College, University of London. He is proficient in UK GAAP and experienced in rationalising international accounting operations and implementing modern performance measures across entire business operations. Previous positions include China Country Manager, Corporate Financial Director and Group Financial Accountant of OILSpace Inc.

Jack joined Betex Group in 2008 as China Country Manager and is based in our Beijing office.

John Blower (68)⁺

Senior Non-Executive

John Blower has founded and provided start-up capital and management to a number of private and listed companies including Warmplan Ltd., 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 and then to AIM. John resigned as a director of Sportingbet plc in March 2004.

David Cowham (69)⁺

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 to 2001.

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

Alexander von Franckenstein (43)⁺

Non-Executive Director

Alexander von Franckenstein, brings a wealth of 17 years Corporate and Investment Banking experience to the Betex board, with appointments in London, Paris, Frankfurt and Zurich. He held various senior management positions with HypoVereinsbank, Swiss Bank Julius Bär AG and Bank Sal. Oppenheim jun. & Cie., lately as partner and CEO of BZ Berater Zentrum AG, an independent Swiss Asset Manager in Zürich. Alexander is currently involved and managing various venture capital and private equity projects. He started his studies in Oxford (PPE), followed by international economy and affairs in Paris. He is a fellow of Institut Supérieur Européen de Management, where he completed his postgraduate Diploma and MBA.

+ Member of Audit and Remuneration Committees

Corporate Governance Statement

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 a non-listed company Betex is not required to follow the provisions of the 2008 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 in 2009 comprised three Executive and three Non-Executive Directors. All of the non-executives hold shares 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. Following the resignation of the Chairman during 2008 the Board did not appoint a new full time Chairman and the senior non-executive director undertook these responsibilities.

The Board meets approximately nine times each year, however it will meet when necessary if circumstances dictate. 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 and Remuneration Committees. The minutes of each Committee are circulated to and reviewed by the Board.

Audit Committee

The Audit Committee is chaired by David Cowham (who has relevant financial experience for this role), and its other members are John Blower and Alexander von Franckenstein who also acts as the Committee’s Secretary.

The Audit Committee meets at least once 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 (who also acts as the committee’s secretary) and Alexander von Franckenstein.

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.

Directors' Attendances

	Board	Audit	Remuneration
Director – attended (possible)			
J J Longley	9 (9)		
S F Spector	9 (9)		
K Sun	6 (9)		
J W Blower	5 (9)	1 (1)	1 (1)
D F Cowham	5 (9)	1 (1)	1 (1)
N-A von Franckenstein	7 (9)	1 (1)	1 (1)

Communications 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 and major private shareholders.

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 and private 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 in 2008, it reviewed and satisfied itself that the Group now has a clear organisational 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;
- the preparation of reports by the Executive Directors and senior employees for the Board on the operation of the business units for which they are responsible;
- defining 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. Identified risks are prioritised and agreed programmes of minimisation or elimination are monitored as is the ongoing risk profile.

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 Committee and Auditors

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 ethical 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's main involvement is 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 dependent 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 play as employees, 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.

Remuneration Report

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

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.

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; and
- to have regard to the provisions of the Combined Code and associated guidance in its decision-making.

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.

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.

Share Option Schemes

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

The Directors' emoluments, benefits and shareholdings during the year ended 31 December 2009 were as follows:

1. Directors' Emoluments

	Notes	Salary/ Fees £000	Bonus £000	Benefits £000	Total emoluments 2009 £000	Pension Contribution 2009 £000	Total emoluments 2008 £000	Pension Contribution 2008 £000
Executive Directors								
J J Longley	1	160	–	3	163	–	162	–
S F Spector		135	–	6	141	7	140	7
K Sun	2	97	–	7	104	–	–	–
Dr J S Hon	3	n/a	n/a	n/a	n/a	n/a	40	–
Non-Executive Directors								
J W Blower	4	20	–	–	20	–	2	–
D F Cowham	4	20	–	–	20	–	2	–
N-A von Franckenstein	4	20	–	–	20	–	2	–
TOTALS		452	–	16	468	7	348	7

- Aggregate emoluments for J J Longley, as highest paid Director, amounted to £162,786 (2008: £162,180) excluding pension contributions.
- K Sun was appointed as a director on 29 January 2009.
- Dr J S Hon resigned as a director on 27 May 2008.
- John Blower, David Cowham and Alexander von Franckenstein waived their fees from 2007 until November 2008.

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

	Date of Grant	No. of Options issued up to 1 January 2009	No. of Options issued during 2009	Exercise Price	Earliest exercise date	Expiry of exercise period
Options						
Executive Directors						
J J Longley	27/12/2007	4,000,000		5p	27/12/2008	27/12/2018
	18/12/2008	1,000,000		2.5p	18/12/2009	18/12/2019
S F Spector	01/12/2005	500,000		34.5p	01/12/2006	30/11/2015
	27/12/2007	3,000,000		5p	27/12/2008	27/12/2018
	18/12/2008	750,000		2.5p	18/12/2009	18/12/2019
K Sun	23/07/2008	1,500,000		5p	23/07/2009	23/07/2019
	18/12/2008	250,000		2.5p	18/12/2009	18/12/2019
	29/01/2009		500,000	2.5p	29/01/2010	29/01/2020
	31/12/2009		1,500,000	5p	31/12/2010	31/12/2020
Non-Executive Directors						
J W Blower	n/a	n/a	n/a	n/a	n/a	n/a
D F Cowham	n/a	n/a	n/a	n/a	n/a	n/a
N-A von Franckenstein	n/a	n/a	n/a	n/a	n/a	n/a

- All share options as at 31 December 2008 have been granted under the Betex Group plc Unapproved Share Option Scheme 2005 (as amended).
- No options were exercised during the period.
- S F Spector received options in 2005 as a senior executive of the Company.
K Sun received options in 2008 as a senior executive of the Company.

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

	Notes	31 December 2009	31 December 2008
Shares			
Executive Directors			
J J Longley		200,000	200,000
S F Spector		200,000	200,000
Non-Executive Directors			
J W Blower	1	2,837,672	837,672
D F Cowham	2	7,571,619	5,571,619
N-A von Franckenstein		4,630,126	1,500,000

1. Included in John Blower's Shares are 25,000 in the name of his wife.
2. Included in David Cowham's shares are 313,400 in the name of his wife.

J. W. Blower
Chairman
Remuneration Committee

Directors' Report

The directors present their report and accounts for the year ended 31 December 2009.

Incorporation

The Company is incorporated as a Public Limited Company in England and Wales, register number 05450662 and its registered office is located at 48 Charlotte Street, London W1T 2NS.

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.

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 2009 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 3 to 7.

Financial instrument risk

Information about the use of financial instruments by the company and its subsidiaries is given in note 31 to the accounts.

Dividends

The directors do not recommend the payment of a dividend (2008: Nil per share).

Events since the balance sheet date

On 25 January 2010, the Group's Chinese operation signed an exclusive 5-year contract with Nanjing Welfare Lottery Management Centre to launch and operate a new retail lottery concept across Nanjing, the capital of Jiangsu Province (See note 27 to the accounts).

Directors

The following persons served as directors during the year:

	<u>Date of appointment</u>
J J Longley – CEO	
S F Spector – CFO	
K Sun – COO	29 January 2009
J W Blower – Non Executive	
D F Cowham – Non Executive	
N-A von Franckenstein – Non Executive	

In accordance with the Articles of Association S F Spector and J W Blower retire by rotation at the 2009 Annual General Meeting and, being eligible, offer themselves for re-election.

Details of the directors' service agreements, interests in the share capital of the company and share options are given in the Remuneration Report set out on pages 14 to 16. 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.

Political and charitable donations

During the year the group did not make charitable donations in excess of £2,000 (2008: £37,919 (RMB 489,324) to a children's charity associated with the Beijing Olympics).

Disclosure of information to auditors

Each person who was a Director at the time this report was approved confirms that:

- so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Substantial Shareholdings at 9 April 2010 (Excluding directors)

	Number of Ordinary Shares of 1p	% of issued Ordinary Shares of 1p
Clariden Leu Zurich	15,725,126	9.34%
Monte Dei Paschi Bank	12,971,000	7.70%
N Wray & Family	11,423,124	6.78%
J Drummond	11,243,360	6.68%
Ethna Capital Partners	11,000,000	6.53%
Credit Suisse Securities (Europe) Limited	9,500,000	5.64%

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 2009 the Company had trade creditors representing 27 days (2008: 62 days) of purchases. Group trade creditors represented 37 days (2008:123 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 31 to the accounts. It is not the policy of the Group to trade in, or enter into, speculative transactions.

Special Business to be proposed at the Annual General Meeting Cancellation of Share Premium Account

At 31 December 2009 the Group has an accumulated deficit on the profit and loss account of £(18,291,567), of which that attributable to the Company was £(19,537,090).

The ability of a company to pay dividends to, or buy back shares from, its shareholders is governed by Parts 18 and 23 of the Companies Act 2006, one of the requirements of which is that dividends may only be paid, or shares bought by the Company if it has distributable profits available for that purpose. The deficit on the Company's profit and loss account currently prevents the payment of dividends or the repurchase of

its shares. Therefore, it is proposed that the reserves of the Company be restructured by way of a cancellation of the Company's share premium account under Chapter 10 of Part 17 of the Companies Act 2006 so that:

- the accumulated deficit on the Company's profit and loss account is eliminated;
- to the extent that the amount of the cancellation exceeds the accumulated deficit on the Company's profit and loss account, and subject to any undertaking required by the High Court of Justice (the "Court") for the protection of the Company's creditors, distributable reserves are created; and
- at a suitable point in the future and subject to the recommendation of the Company's directors, the Company might declare dividends or seek to buy back shares in the Company.

(continued)

The first step in this process is for the Company's shareholders to pass a special resolution approving the cancellation of the share premium account. Currently, the amount standing to the credit of the Company's share premium account is £23,185,864. It is proposed to cancel the share premium account, which will be sufficient to eliminate the accumulated deficit on the Company's profit and loss account and provide a surplus which, subject to an undertaking to the Court for the protection of the Company's creditors, will be distributable. The proposed resolution is set out as Resolution 9 in the accompanying Notice of AGM. The cancellation of share premium account must then be confirmed by the Court and the order registered at Companies House before it becomes effective.

The Court must be satisfied that the Company's creditors will not be prejudiced by the proposed cancellation of share premium account. To the extent that, at the time of the application to the Court (which is currently scheduled to be in May 2010), there remain creditors of the Company who have not consented to the proposed cancellation of share premium account, it is anticipated that the Company will be in a position to give such undertakings as are necessary to satisfy the Court that the proposed cancellation of share premium account will not prejudice those non-consenting creditors.

Adoption of new Articles of Association

Following the full implementation of the Companies Act 2006 the company is required to adopt new Articles of Association which contain the relevant provisions required by the Act. A copy of the proposed new articles is available on the company's website www.betexgroup.plc.uk and will be available at the Annual General Meeting.

Auditors

Each of the persons who is a director at the date of approval of these accounts confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of Wingrave Yeats Partnership LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

This report was approved by the board on 12 April 2010 and signed on its behalf.

S F Spector
Director and 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Group 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 IFRSs as adopted by the European Union 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 company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Group's website and legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report to the Shareholders of Betex Group plc

We have audited the accounts of Betex Group plc for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Group and Company Balance Sheets, the Group and Company Statement of Cash Flows, the Consolidated Statement of Other Comprehensive Income, the Group and Company Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company accounts, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 20, the Directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view.

Our responsibility is to audit the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Sections 495 to 497 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed and by our prior consent in writing.

Scope of the audit

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the accounts.

Opinion on the accounts

In our opinion:

- the accounts give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2009 and of the Group's loss and Group's and Parent Company's cash flows for the year then ended;
- the Group accounts have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company accounts have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the accounts have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the accounts are prepared is consistent with the accounts.

Independent Auditors' Report to the Shareholders of Betex Group plc *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company accounts and the part of the remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Martin Jones (Senior Statutory Auditor)
for and on behalf of Wingrave Yeats Partnership LLP
Chartered Accountants and Statutory Auditor
London
12 April 2010

Consolidated Income Statement for the year ended 31 December 2009

	Notes	Year Ended 31 December 2009 £	Year Ended 31 December 2008 £
Continuing Operations			
Revenue	2	3,827,151	3,075,875
Cost of sales		(243,753)	(162,855)
Gross profit		3,583,398	2,913,020
Administrative expenses		(2,280,973)	(2,263,973)
– including exceptional items	3	(584,143)	(71,215)
Other operating income		–	57,174
EBITDA		1,302,425	706,221
Amortisation & depreciation	3	(1,572,168)	(1,769,926)
Operating loss	3	(269,743)	(1,063,705)
Investment income		4,168	28,026
Interest payable	7	(352)	(78,944)
Loss on continuing activities before taxation		(265,927)	(1,114,623)
Tax on loss on continuing activities	8	(310,423)	(90,520)
Loss on continuing activities after taxation		(576,350)	(1,205,143)
Discontinued Operations			
Profit from discontinued activities	9	188,873	43,387
Loss for the year		(387,477)	(1,161,756)
Attributable to:			
Equity holders of the parent	23	(446,278)	(1,213,196)
Minority interest	24	58,801	51,440
Loss per share attributable to equity holders of parent	10		
From continuing operations			
– Basic		(0.38)p	(0.82)p
– Fully diluted		(0.38)p	(0.82)p
From discontinued operations			
– Basic		0.11p	0.03p
– Fully diluted		0.11p	0.03p
From continuing and discontinued operations			
– Basic		(0.27)p	(0.79)p
– Fully diluted		(0.27)p	(0.79)p

Consolidated Statement of Comprehensive Income for the year ended 31 December 2009

	Year Ended 31 December 2009 £	Year Ended 31 December 2008 £
Loss for the year	(387,477)	(1,161,756)
Net exchange differences on the retranslation of net investments	(776,804)	3,922,225
Total comprehensive income	(1,164,281)	2,760,469
Attributable to:		
Equity holders of the parent	(1,223,082)	2,631,845
Minority interest	58,801	128,624

Independent Auditors' Report to the Shareholders of Betex Group plc (continued)
Consolidated Balance Sheet
as at 31 December 2009

	Notes	£	2009 £	£	2008 £
Assets					
Non-current assets					
Intangible assets	11		2,932,845		4,809,247
Property, plant and equipment	12		56,095		87,783
Investments	13		–		–
Other receivables	15		126,859		140,423
			<u>3,115,799</u>		<u>5,037,453</u>
Current assets					
Trade and other receivables	14	3,725,292		3,725,711	
Cash and cash equivalents	31	1,350,578		1,130,685	
			<u>5,075,870</u>		<u>4,856,396</u>
Total Assets			<u>8,191,669</u>		<u>9,893,849</u>
Liabilities					
Current liabilities					
	16		(604,609)		(1,141,514)
Non-current liabilities					
Deferred taxation	18		(449,030)		(166,043)
Total Liabilities			<u>(1,053,639)</u>		<u>(1,307,557)</u>
Net Assets			<u>7,138,030</u>		<u>8,586,292</u>
Equity					
Capital and reserves attributable to equity holders of the company					
Ordinary shares	19		1,684,052		1,684,052
Share premium	21		23,185,864		23,185,864
Other reserve	22		559,681		559,681
Accumulated deficit	23		(18,291,567)		(17,129,625)
Equity shareholders' funds			<u>7,138,030</u>		<u>8,299,972</u>
Minority interest	24		–		286,320
Total Equity			<u>7,138,030</u>		<u>8,586,292</u>

J J Longley
 Director

The accounts were approved and authorised for issue by the Board and were signed on its behalf on
 12 April 2010

Company Balance Sheet as at 31 December 2009

Notes	£	2009 £	£	2008 £
Assets				
Non-current assets				
Intangible assets	11	313,239		440,913
Property, plant and equipment	12	3,269		8,596
Investments	13	3,532,079		7,257,661
Other receivables	15	1,363,678		1,160,591
		<u>5,212,265</u>		<u>8,867,761</u>
Current assets				
Trade and other receivables	14	39,682	129,805	
Cash and cash equivalents		<u>193,543</u>	<u>144,073</u>	
		233,225		273,878
Total Assets		<u>5,445,490</u>		<u>9,141,639</u>
Liabilities				
Current liabilities				
	16	(112,664)		(182,085)
Total Liabilities		<u>(112,664)</u>		<u>(182,085)</u>
Net Assets		<u>5,332,826</u>		<u>8,959,554</u>
Equity				
Capital and reserves attributable to equity holders of the company				
Ordinary shares	19	1,684,052		1,684,052
Share premium	21	23,185,864		23,185,864
Accumulated deficit	23	(19,537,090)		(15,910,362)
Equity shareholders' funds		<u>5,332,826</u>		<u>8,959,554</u>

J J Longley
Director

The accounts were approved and authorised for issue by the Board and were signed on its behalf on
12 April 2010

Consolidated Statement of Changes in Equity for the year ended 31 December 2009

	2009 £	2008 £
Balance at 1 January	8,299,972	5,965,215
Loss for the financial year	(446,278)	(1,213,196)
Net exchange differences on the retranslation of net investments	(776,804)	2,559,524
Shares issued	–	929,102
Share based transaction charges	61,140	59,327
Balance at 31 December	<u>7,138,030</u>	<u>8,299,972</u>

Company Statement of Changes in Equity for the year ended 31 December 2009

	2009 £	2008 £
Balance at 1 January	8,959,554	9,415,625
Loss for the financial year	(3,687,868)	(1,444,500)
Shares issued	–	929,102
Share based transaction charges	61,140	59,327
Balance at 31 December	<u>5,332,826</u>	<u>8,959,554</u>

Consolidated Statement of Cash Flows for the year ended 31 December 2009

	<i>Notes</i>	2009 £	2008 £
CASH FLOW STATEMENT			
Net cash generated from operating activities	25	587,906	70,565
Net cash (used in)/generated from investing activities	25	(368,013)	1,453,892
Net cash used in financing activities	25	–	(838,394)
		<hr/>	<hr/>
Net increase in cash and cash equivalents in the year		219,893	686,063
Cash and cash equivalents at 1 January		1,130,685	444,622
		<hr/>	<hr/>
Cash and cash equivalents at 31 December		<u>1,350,578</u>	<u>1,130,685</u>

Company Statement of Cash Flows for the year ended 31 December 2009

	<i>Notes</i>	2009 £	2008 £
CASH FLOW STATEMENT			
Net cash generated from/(used in) operating activities	25	22,676	(1,650,908)
Net cash generated from investing activities	25	26,794	1,290,009
Net cash generated from financing activities	25	–	437,320
		<hr/>	<hr/>
Net increase in cash and cash equivalents in the year		49,470	76,421
Cash and cash equivalents at 1 January		144,073	67,652
		<hr/>	<hr/>
Cash and cash equivalents at 31 December		<u>193,543</u>	<u>144,073</u>

Notes to the Accounts for the year ended 31 December 2009

1 Accounting policies

Basis of preparation

The consolidated accounts of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) and Financial Reporting Interpretations (IFRIC or SIC) issued by the International Accounting Standards Board (IASB), as adopted for use by the European Union (EU) effective at 31 December 2009 and the Companies Act 2006 applicable to companies reporting under IFRS. The Group has adopted for the first time IAS 1 (revised), IFRS 2 (revised), IFRS 7 and IFRS 8 (note 32). The Group has not adopted any standards or interpretations in advance of the required implementation dates. It is not expected that adoption of standards or interpretations which have been issued by the IASB that have not been adopted will have a material impact on the accounts.

The Group has applied the following optional exemptions granted by IFRS 1 First-time Adoption of International Financial Reporting Standards from full retrospective application of IFRS accounting policies:

- Business combinations: The Group has elected not to apply IFRS 3 Business Combinations retrospectively to past business combinations that occurred before the date of transition to IFRSs.

The Group's IFRS accounting policies, set out below, have been consistently applied to all the periods presented. The information has been prepared under the historical cost basis or fair value basis where the fair value of relevant assets and liabilities has been applied. The accounting policies have been applied consistently by Group entities.

Corporate restructuring

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 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 or disposed of are consolidated for the periods from the date on which control passed to the Group or up to the effective date of disposal as appropriate, except where merger accounting is used (see above and below). Where necessary, adjustments are made to the accounts of subsidiaries to bring the accounting policies used into line with those used by the group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The Company has taken advantage of section 408 of the Companies Act 2006 not to publish its own Income Statement.

Merger accounting

In the Group Accounts, merged subsidiary undertakings are treated as if they had always been a member of the Group. Thus the comparative Consolidated retained losses balance reflects 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 are 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.

1 Accounting policies *(continued)*

Going concern

The Group has incurred trading losses. The Board has prepared financial forecasts to 31 December 2011 and considers it is reasonable to assume that the Group has adequate working capital for this period.

After due consideration of the facts, assumptions and proposed actions, the Board believes 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.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

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 is not amortised, but the Directors carry out an impairment review after the completion of the first year of trading following acquisition and annually thereafter or if events or changes in circumstances indicate that the carrying value may not be recoverable. Any resulting reduction in value is charged through the income statement.

Revenue recognition, turnover and gross profit

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.

The Group does not operate in any other countries.

Other Intangible assets

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. The Directors carry out an impairment review after the completion of the first year of trading following investment and at least annually thereafter or if events or changes in circumstances indicate that the carrying value may not be recoverable. Any resulting reduction in value is charged through the income statement.

Impairment is measured by comparing the amortised cost to the fair value of the Investments and if the latter is lower than the amortised cost, a provision is made. Fair value is determined by discounted cash flow analysis. Calculations have been based on the interest rate of bonds issued by the Chinese government at the commencement date of the contract concerned for a period equivalent to the life of that contract, using an estimate of income generated by the contract with little or no sales growth and net of Chinese business (sales) tax.

Computer Software

In accordance with SIC 32 where, in the opinion of the directors, the Group's expenditure in relation to development or acquisition of computer software results in future economic 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 income statement as incurred.

1 Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment losses.

Depreciation is provided on all property, plant and equipment, 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:

Short leasehold land and buildings	over period of lease
Plant and machinery:	
Fixtures, fittings and equipment	1 – 3 years straight line
Motor vehicles	3 – 4 years straight line
Computer equipment	3 years straight line

Impairment

At each reporting date, management assess whether there is any indication of impairment of assets.

If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell or its value in use. The carrying amount is reduced to the recoverable amount and an impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amounts are recognised in the income statement.

Share-based payments

The Group has applied the requirements of IFRS 2 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.

Deferred taxation

Deferred tax assets are recognised only to the extent that it is probable that they will be recovered through sufficient future taxable profit. The carrying amount of deferred tax assets is reviewed at each balance sheet date.

Deferred tax is calculated at the tax rates that are expected to apply in the periods when the liability is settled or the asset is realised, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also taken directly to equity.

Foreign currencies

Functional and presentation currency

Items included in the accounts of each of the group's entities are measured using the currency of the country in which the entity operates ('the functional currency'). The consolidated accounts are presented in 'Pound Sterling' (£), which is the company's functional and presentation currency.

Transactions and balances

In preparing the accounts of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

1 Accounting policies *(continued)*

Group companies

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets translated into Pound 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 income statement at an average rate are treated as a separate component of equity.

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 income statement 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 in the United Kingdom. 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 income statement as incurred.

Financial Instruments

The Group's financial instruments comprise borrowings, some cash and cash equivalents, derivative financial instruments (forward exchange contracts) and items such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to manage the finance of the Group's operations.

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables:

Trade receivables do not carry any interest and are stated at their nominal value less appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents:

Cash and cash equivalents include cash in hand and deposits held at call with banks.

Borrowings:

Interest bearing bank and other loans are recorded at the proceeds received net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the Income Statement and are added to the carrying amount of the instruments to the extent that they are not settled in the period in which they arise.

Trade payables:

Trade payables do not carry any interest and are stated at their nominal value.

Derivative financial instruments

The Group has entered into foreign exchange forward contracts to manage its exposure to foreign exchange risk. Further details of these derivative financial instruments are disclosed in note 31.

These derivatives are designated as hedges of foreign currency risk of firm commitments (cash flow hedges) and the recognition of any gain or loss in the income statement is dependent on the timing of the related commitments.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised at that time is accumulated in equity and is recognised in the Income Statement when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the Income Statement.

Equity instruments:

Equity instruments issued by the Group are recorded at the proceeds received net of direct issue costs.

2 Segmental and geographical information

The Group has adopted IFRS 8 Operating Segments for the first time in these accounts with effect from 1 January 2008. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive to allocate resources to the segments and to assess their performance. The Group's primary reporting format is by business segment. Currently it only has one business segment which operates in one geographical location. As a result, following the adoption of IFRS 8, the identification of the Group's reportable segments has not changed.

Continuing Operations

2009 Results	Turnover £	Gross profit £	Profit/(loss) before tax £
Lottery (China)			
Lottery fees	3,790,534	3,551,808	
Other lottery income	36,617	31,590	
	3,827,151	3,583,398	317,570
Common Costs (UK)			
			(583,497)
	3,827,151	3,583,398	(265,927)
Assets and Liabilities			
	Assets £	Liabilities £	Net Assets £
Lottery (China)	7,980,796	(2,983,297)*	4,997,499
Common Costs (UK)	2,281,756*	(141,225)	2,140,531
	10,262,552	(3,124,522)	7,138,030

*UK assets and China liabilities include inter-company loans totalling £2,089,222 between Betex Group plc and its Chinese subsidiaries.

2008 Results	Turnover £	Gross profit £	Loss before tax £
Lottery (China)			
Lottery fees	3,021,820	2,862,341	
Other lottery income	54,055	50,679	
	3,075,875	2,913,020	(503,704)
Common Costs (UK)			
			(610,919)
	3,075,875	2,913,020	(1,114,623)
Assets and Liabilities			
	Assets £	Liabilities £	Net Assets £
Lottery (China)	9,628,474	(3,086,799)*	6,541,675
Common Costs (UK)	2,306,056*	(157,906)	2,148,150
	11,934,530	(3,244,705)	8,689,825
Discontinued operations (See Note 9)	7,235	(110,768)	(103,533)
	11,941,765	(3,355,473)	8,586,292

*UK assets and China liabilities include inter-company loans totalling £2,047,917 between Betex Group plc and its Chinese subsidiaries.

The Group's continuing operations are based in the People's Republic of China with the head office administration in the United Kingdom. The Group does not operate in any other countries or sectors.

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 retail lottery sales commission also in the People's Republic of China.

An analysis of Capital Expenditure by country has been given in Notes 11 and 12.

See Note 9 below for segmental analysis of Discontinued operations.

3 Group operating loss

	Notes	Continuing Operations		Discontinued Operations	
		2009 £	2008 £	2009 £	2008 £
This is stated after charging:					
Exceptional items					
– Settlement with Joint venture partner in China on purchase of their minority interest		667,667	–	–	–
– Shop closure costs in China		–	17,079	–	–
– (Release) of provision for non recovery of related party debt	30	(211,012)	54,136	–	–
– Legal costs of recovery of related party debt		127,488	–	–	–
Total		584,143	71,215	–	–
<i>Depreciation, amortisation and impairment</i>					
Exceptional items					
– Release of impairment of investment	13	–	–	(181,258)	(68,981)
		–	–	(181,258)	(68,981)
Amortisation of other intangible assets	11	1,516,397	1,743,651	–	–
Depreciation of property, plant and equipment	12	52,444	69,572	502	155
Loss on disposal of property, plant and equipment		3,327	(43,297)	–	–
Total		1,572,168	1,769,926	(180,756)	(68,826)
Operating lease rentals					
– land buildings		185,107	229,772	–	7,669
Realised net exchange gains and losses		(36,420)	(51)	–	121
Share based transaction costs	20	61,140	59,327	–	–
Auditors' remuneration for audit services	4	73,914	91,376	–	–
Auditors' remuneration for other services	4	(6,500)	8,600	–	–

4 Auditors' remuneration

	2009 £	2008 £
Continuing Operations		
Fees receivable by the auditors and their associates in respect of:		
Audit of Group financial statements	29,500	55,011
Audit of subsidiaries pursuant to legislation	44,414	36,365
Taxation services		
Current year	2,500	8,600
Adjustment in respect of previous year	(9,000)	–
	67,414	99,976

5 Directors' emoluments

	2009 £	2008 £
Emoluments	467,482	345,994
Company contributions to money purchase pension schemes	6,792	6,771
	474,274	352,765
Highest paid director:		
Emoluments	162,786	162,180
Company contributions to money purchase pension schemes	–	–
	162,786	162,180
Number of directors in company pension schemes:	2009 Number	2008 Number
Money purchase schemes	1	1

6 Staff costs

Group

	Continuing Operations		Discontinued Operations	
	2009 £	2008 £	2009 £	2008 £
Wages and salaries	563,236	818,956	–	31,153
Social security costs	81,062	64,198	(8,376)	9,469
Other pension costs	6,792	6,771	–	–
	651,090	889,925	(8,376)	40,622

Average number of employees during the year

	Number	Number	Number	Number
UK				
Administration	3	3	–	1
Betting operations	–	–	–	11
China				
Administration	14	21	–	2
Technical	9	7	–	2
Lottery operations	9	23	–	6
	35	54	–	22

6 Staff costs (continued)

Company

	Continuing Operations	
	£	£
Continuing Operations		
Wages and salaries	301,708	309,388
Social security costs	39,366	33,320
Other pension costs	6,792	6,771
	<u>347,866</u>	<u>349,479</u>

Average number of employees during the year

	Number	Number
UK		
Administration	<u>3</u>	<u>3</u>

7 Interest payable

	Continuing Operations	
	2009 £	2008 £
Bank loans and overdrafts	–	28,366
Interest on 5% Convertible Unsecured Loan Notes 2008	–	13,345
Interest on 7.5% Secured Convertible Loan Notes 2008	–	12,353
Other loans	352	2,657
Finance element of deferred purchase consideration	–	22,223
	<u>352</u>	<u>78,944</u>

8 Taxation

Analysis of charge in period

	2009 £	2008 £
Chinese income tax		
Current year	1,727	–
Deferred tax		
Origination and reversal of timing differences	240,170	99,409
	241,897	99,409
Deferred tax assets no longer recognised	68,526	–
Effect of reduced tax rate on opening liability	–	(8,889)
Tax charge for year	310,423	90,520

Factors affecting tax charge for period

The differences between the tax assessed for the period and the standard rate of corporation tax are explained as follows:

	2009 £	2008 £
Loss on continuing activities before tax	(265,927)	(1,114,623)
Profit on discontinued activities before tax	188,873	43,387
	(77,054)	(1,071,236)
Net rate of corporation tax in the UK and China	24.55%	25.25%
	£	£
Loss on ordinary activities multiplied by the standard rate of corporation tax	(18,935)	(270,535)
Effects of:		
Expenses not deductible for tax purposes	(2,818)	144,673
Capital allowances for period less than/(in excess) of depreciation	1,294	(40,975)
Timing differences	(77,830)	(38,939)
Utilisation of tax losses	(6,664)	(15,182)
Loss carried forward for which no deferred tax assets recognised	346,850	320,367
	241,897	99,409
Deferred tax assets no longer recognised	68,526	
Effect of reduced tax rate on opening liability	–	(8,889)
Tax charge for year	310,423	90,520

Factors that may affect future tax charges

No asset has been recognised in respect of the tax losses available to carry forward of approximately £16.3 million (2008: £16.2 million), as it is currently considered unlikely that the potential deferred tax asset arising will be recoverable in the foreseeable future (note 18).

9 Discontinued operations

	2009 £	2008 £
Revenue	–	81,424
Cost of sales	–	(28,549)
Gross profit	–	52,875
Administrative expenses	(260)	(84,642)
– including exceptional items (See Note 3 above)	–	–
Other operating income	8,377	6,318
EBITDA	8,117	(25,449)
Amortisation, depreciation and loss on sales	180,756	68,826
– including exceptional items (See Note 3 above)	181,258	68,981
Operating profit	188,873	43,377
Interest receivable	–	10
Amounts written off investments	–	–
Interest payable	–	–
Profit on discontinued activities before taxation	188,873	43,387
Tax on profit on discontinued activities	–	–
Profit after tax on discontinued activities	188,873	43,387

Segmental information:

2009 Results	Turnover £	Gross win/ (loss) £	Gross profit/ (loss) £	Operating profit £
Lottery (China)				
Other trading income	–	–	–	188,873
	–	–	–	188,873

Assets and Liabilities

	Assets £	Liabilities £
Lottery (China)	–	–
	–	–

9 Discontinued operations (continued)

2008 Results	Turnover £	Gross win/ (loss) £	Gross profit/ (loss) £	Operating profit/(loss) £
Lottery (China)				
Other lottery income	–	(350)	(350)	
	–	(350)	(350)	(39,371)
Betting (UK)				
Customer stakes	81,424	8,394	53,225	
	81,424	8,394	53,225	82,758
	81,424	8,044	52,875	43,387

Assets and Liabilities

	Assets £	Liabilities £
Lottery (China)	1,514	(58,029)
Betting (UK)	5,723	(52,738)
	7,237	(110,767)

Closure of Beijing Copia Tele-Link Technology Co. Ltd.

As previously reported this subsidiary was liquidated in 2009. The income shown represents overprovisions made in previous years for costs on closure.

10 Loss per share

	2009 £	2008 £
Continuing operations		
Based on the retained loss for the period of	(635,151)	(1,256,583)
Discontinued operations		
Based on the retained profit for the period of	188,873	43,387
Continuing and discontinued operations		
Based on the retained loss for the year of	(446,278)	(1,213,196)
Weighted average number of shares:		
	Number	Number
For basic loss per share	168,405,283	153,783,727
Share warrants and Options	11,688,178	17,037,312
For diluted loss per share	180,093,461	170,821,039

The loss per share is stated on the face of the Consolidated Income Statement.

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.

11 Intangible assets

Group

2009	Goodwill £	Other £	Total £
Cost			
At 1 January 2009	1,261,178	12,201,732	13,462,910
Currency translation adjustment	(119,182)	(1,059,854)	(1,179,036)
Additions	18,445	–	18,445
Disposal and rebates	–	(896,388)	(896,388)
At 31 December 2009	1,160,441	10,245,490	11,405,931
Accumulated amortisation and impairment loss			
At 1 January 2009	1,261,178	7,392,485	8,653,663
Currency translation adjustment	(119,182)	(681,404)	(800,586)
Impairment/amortisation provided during the year	–	1,516,397	1,516,397
Amortisation on disposal	–	(896,388)	(896,388)
At 31 December 2009	1,141,996	7,331,090	8,473,086
Net book value			
At 31 December 2009	18,445	2,914,400	2,932,845

Goodwill

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. The addition in the year relates to the acquisition of the minority interest in two Chinese subsidiaries.

Other

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 2009 £	% of Lottery Sales Receivable %	Remaining Contract Life Months
GuiZhou	341,086	2.00	53*
Hebei	273,580	1.30	4
Hebei – Instant lottery and Scratch Cards	2,299,734	3.50	45
	2,914,400		

* The GuiZhou contract guaranteed a total return of 300% on the Group's investment by September 2009. If this was not achieved then the contract was to be automatically extended until this return had been achieved. In June 2009 the Group renegotiated the contract extending its life until May 2014 in return for abandoning the guaranteed return.

11 Intangible assets (continued)

Following changes in the regulations effecting mobile phone and internet service providers in The People's Republic of China, the Group was not able to proceed with the Mobile Lottery licences in Ningxia and Hunan, which it acquired during 2006. The value of these assets was written down to £nil in 2008.

2008

	Goodwill £	Other £	Total £
Cost			
At 1 January 2008	2,062,298	10,531,312	12,593,610
Currency translation adjustments	399,684	4,165,878	4,565,562
Additions	–	117,203	117,203
Disposal and rebates	(1,200,804)	(2,612,661)	(3,813,465)
At 31 December 2008	1,261,178	12,201,732	13,462,910
Accumulated amortisation and impairment loss			
At 1 January 2008	2,062,298	3,952,925	6,015,223
Currency translation adjustment	399,684	1,801,023	2,200,707
Impairment/amortisation provided during the year	–	1,743,651	1,743,651
Amortisation on disposal	(1,200,804)	(105,114)	(1,305,918)
At 31 December 2008	1,261,178	7,392,485	8,653,663
Net book value			
At 31 December 2008	–	4,809,247	4,809,247

Company

	Other 2009 £	Other 2008 £
Cost		
At 1 January	1,229,460	1,334,574
Disposal	–	(105,114)
At 31 December	1,229,460	1,229,460
Accumulated amortisation and impairment loss		
At 1 January	788,548	624,749
Amortisation provided during the year	127,673	268,912
Amortisation on disposal	–	(105,114)
At 31 December	916,221	788,547
Net book value		
At 31 December	313,239	440,913

These investments represent costs incurred in respect of investment in contracts with Chinese provincial government Sports Lottery Management Centres. See above.

12 Property plant and equipment

Group 2009

	Short leasehold land and buildings £	Computer software and web site development £	Plant and equipment £	Total £
Cost				
At 1 January 2009	66,658	62,586	155,454	284,698
Translation differences	(6,439)	(2,907)	(9,429)	(18,775)
Additions	17,597	382	26,956	44,935
Disposals	–	(5,550)	(84,162)	(89,712)
At 31 December 2009	77,816	54,511	88,819	221,146
Depreciation and impairment				
At 1 January 2009	29,760	56,598	110,557	196,915
Translation differences	(3,138)	(2,988)	(6,345)	(12,471)
Charge for the year	19,904	6,143	26,397	52,444
On disposals	–	(5,550)	(66,287)	(71,837)
At 31 December 2009	46,526	54,203	64,322	165,051
Net book value				
At 31 December 2009	31,290	308	24,497	56,095

Capital expenditure, shown above as additions, in China was £36,177 and in the UK was £8,758.

2008

	Short leasehold land and buildings £	Computer software and web site development £	Plant and equipment £	Total £
Cost				
At 1 January 2008	359,265	53,205	586,946	999,416
Translation differences	51,886	9,381	99,356	160,623
Additions	–	–	4,406	4,406
Disposals	(344,493)	–	(535,254)	(879,747)
At 31 December 2008	66,658	62,586	155,454	284,698
Depreciation and impairment				
At 1 January 2008	223,049	37,773	468,448	729,270
Translation differences	38,974	10,468	70,709	120,151
Charge for the year	21,251	8,357	40,119	69,727
On disposals	(253,514)	–	(468,719)	(722,233)
At 31 December 2008	29,760	56,598	110,557	196,915
Net book value				
At 31 December 2008	36,898	5,988	44,897	87,783

Capital expenditure, shown above as additions, in China was £4,406 and in the UK was £Nil.

12 Property plant and equipment (continued)

Company

2009

	Short leasehold land and buildings £	Computer software and web site development £	Plant and equipment £	Total £
Cost				
At 1 January 2009	–	26,945	5,671	32,616
Additions	–	382	8,376	8,758
Disposals	–	–	(1,011)	(1,011)
At 31 December 2009	–	27,327	13,036	40,363
Depreciation				
At 1 January 2009	–	20,957	3,063	24,020
Charge for the year	–	6,062	7,025	13,087
On disposals	–	–	(13)	(13)
At 31 December 2009	–	27,019	10,075	37,094
Net book value				
At 31 December 2009	–	308	2,961	3,269

2008

	Short leasehold land and buildings £	Computer software and web site development £	Plant and equipment £	Total £
Cost				
At 1 January 2008	244,719	26,945	115,338	387,002
Disposals	(244,719)	–	(109,667)	(354,386)
At 31 December 2008	–	26,945	5,671	32,616
Depreciation				
At 1 January 2008	143,115	11,976	99,812	254,903
Charge for the year	10,625	8,981	2,265	21,871
On disposals	(153,740)	–	(99,014)	(252,754)
At 31 December 2008	–	20,957	3,063	24,020
Net book value				
At 31 December 2008	–	5,988	2,608	8,596

13 Investments

Group

	2009 Other investments £	2008 Other investments £
Cost		
At 1 January	49,148	33,826
Currency translation adjustment	(4,747)	15,322
Disposal	(44,401)	–
At 31 December	–	49,148
Amortisation and impairment		
At 1 January	49,148	33,826
Currency translation adjustment	(4,747)	15,322
Disposal	(44,401)	–
At 31 December	–	49,148
Net book value		
At 31 December	–	–

The “other investments” represented a 49% shareholding in Tianjin Copia Tele-Link Technology Co. Ltd., (“Tianjin”). This shareholding was acquired as part of a larger acquisition by one of the Group’s Chinese subsidiaries. The majority shareholder of Tianjin was 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 did not have significant influence over the management of this company. This company has ceased to trade and has been struck off by the Free Trade Zone Branch of the Tianjin Municipal Provincial Administration for Industry and Commerce (“AIC”). Full provision was previously made against the cost of the investment in this company.

Company

	2009 Investments in subsidiary undertakings £	2008 Investments in subsidiary undertakings £
Cost		
At 1 January	7,715,627	7,956,277
Additions	–	467,000
Disposal	–	(707,650)
At 31 December	7,715,627	7,715,627
Provisions		
At 1 January	457,966	1,165,616
Provision charged	3,725,582	–
Disposal	–	(707,650)
At 1 January	4,183,548	457,966
Net book value		
At 31 December	3,532,079	7,257,661

Additions represent additional capital paid into one of the Group’s Chinese Wholly Foreign Owned Enterprise Companies to provide further funding for that company’s operations.

13 Investments (continued)

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

Company	Country of registration or incorporation	Ordinary Shares % Held	Activity
Subsidiary undertaking			
Betex Management Ltd.	England and Wales	100%	Management services
Beijing GaoBao 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 Ltd.	British Virgin Islands	100%	Management services
Subsidiaries held by Betex Management Ltd.			
Betex Ltd.	England and Wales	100%	Dormant
Betex (VIP) Ltd.	England and Wales	100%	Dormant – proposal to strike off
Subsidiaries held by Beijing GaoBao Sports Management Co. Ltd.			
GuiZhou GaoBao Sports Technology Co Ltd	People's Republic of China	100%	Lottery management
Beijing GaoBao Marketing & Planning Co. Ltd	People's Republic of China	100%	Lottery management
Subsidiaries held by Beijing GaoBao Marketing & Planning Co. Ltd.			
Beijing JiXinYa Technology Development Co. Ltd.	People's Republic of China	100%	Lottery marketing
Guang Zhou Yin Guang Corporation Management Consulting Co. Ltd.	People's Republic of China	100%	Lottery marketing
Subsidiaries held by Beijing Betex Business Management Co. Ltd.			
Beijing Betex Marketing & Planning Co. Ltd	People's Republic of China	100%	Lottery marketing
Subsidiaries held by Betex (Guangzhou) Management & Consultancy Co. Ltd.			
Guangdong Le Ke Casual Lottery Bars Co. Ltd.	People's Republic of China	100%	Retail lottery sales

In each case the percentage voting rights are equivalent to the percentage of Ordinary Shares held shown above.

Guang Zhou Yin Guang Corporation Management Consulting Co. Ltd. was incorporated during the year to provide marketing consultancy services in GuangZhou.

14 Current trade and other receivables

	2009 £	2008 £
Group		
Trade receivables	2,456,896	1,889,883
Other receivables	1,229,794	1,779,194
Prepayments and accrued income	38,602	56,634
	3,725,292	3,725,711
Company		
Other receivables	19,821	113,745
Prepayments and accrued income	19,861	16,060
	39,682	129,805

15 Non-current other receivables

	2009 £	2008 £
Group		
Other receivables	126,859	140,423

This is a loan by a Chinese subsidiary of RMB1.4 million, repayable in 2013, to a potential joint venture partner which bears interest at 5% per annum.

Company		
Receivables from related parties (see Note 30 below)	1,363,678	1,160,591

16 Current Liabilities

	2009 £	2008 £
Group		
Trade payables	37,902	483,483
Chinese income tax	1,673	–
Social security and other taxes	411,744	325,616
Other payables	76,878	258,688
Accruals and deferred income	71,041	73,727
Forward exchange contract liability (note 31)	5,371	–
	604,609	1,141,514

	2009 £	2008 £
Company		
Trade payables	30,665	97,359
Social security and other taxes	41,999	30,726
Accruals and deferred income	34,629	54,000
Forward exchange contract liability (note 31)	5,371	–
	112,664	182,085

17 Non-Current liabilities

	2009 £	2008 £
Group		
Deferred taxation (see Note 18 below)	449,030	166,043

18 Deferred taxation

	2009 £	2008 £
Group		
Provision		
Deferred capital allowances	(583,932)	(1,121,167)
Other timing differences	2,460,162	2,884,240
Tax losses carried forward	–	(1,249,932)
Currency translation adjustment	200	151,032
Total reversable timing differences	1,876,430	664,173
Deferred tax provision @ 24% (2008: 25%)	449,030	166,043

The provision represents net timing differences expected to reverse in the foreseeable future in subsidiaries in China.

18 Deferred taxation (continued)

	2009 £	2008 £
Potential deferred tax asset		
Deferred capital allowances	1,428,846	1,429,812
Other timing differences	9,696,837	4,740,066
Tax losses carried forward	16,349,924	16,076,503
Currency translation adjustment	(70,743)	320,166
Total gross timing differences	27,404,864	22,566,547
Potential deferred tax asset @ 24.55% (2008: 25.25%)	6,728,196	5,699,091

19 Ordinary shares

	2009 No	2008 No	2009 £	2008 £
Allotted, called up and fully paid:				
Ordinary shares of 1p each	168,405,284	168,405,284	1,684,052	1,684,052

Warrants issued

Warrants were previously issued giving rights to subscribe for ordinary shares of the Company none of which are now outstanding.

20 Options issued and 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:

	2009		2008	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding				
At 1 January	11,000,000	5.89	9,695,753	16.24
Granted during the year	2,000,000	4.38	3,500,000	3.57
Forfeited during the year	–	–	(7,206)	(73.51)
Lapsed during the year	–	–	(2,188,547)	(60.39)
At 31 December	13,000,000	5.65	11,000,000	5.89
Exercisable				
At 31 December	9,250,000	6.32	4,000,000	8.69

All the options outstanding at 31 December 2009 are to executive directors.

On 29 January 2009 the Company allotted 500,000 options to a senior executive upon his appointment as an Executive Director at an exercise price of 2.5p subject to a time elapsed option period. The estimated fair value of the options granted on that date is £2,485.

On 31 December 2009 the Company allotted 1,500,000 options to an Executive Director at an exercise price of 5p subject to a time elapsed option period. The estimated fair value of the options granted on that date is £14,907.

20 Options issued and Share-based payments *(continued)*

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

	2009 £	2008 £
Weighted average share price	4.38p	3.57p
Weighted average exercise price	4.38p	3.57p
Expected volatility	50%	50%
Expected life (years)	2	2
Risk Free Rate	0.50%	4.50%

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 and subsequent to the delisting from AIM in October 2007. 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.

21 Share premium

	2009 £	2008 £
Group		
At 1 January	23,185,864	22,580,403
Shares issued	–	610,461
Expenses of issue	–	(5,000)
At 31 December	23,185,864	23,185,864

	2009 £	2008 £
Company		
At 1 January	23,185,864	22,580,403
Shares issued	–	610,461
Expenses of issue	–	(5,000)
At 31 December	23,185,864	23,185,864

22 Other Reserve

	2009 £	2008 £
Group		
Net Share Premium in subsidiary At 1 January and at 31 December	559,681	559,681

23 Accumulated deficit

	2009 £	2008 £
Group		
At 1 January	(17,129,625)	(18,535,283)
Loss for the financial year	(446,278)	(1,213,196)
Share based payments	61,140	59,327
Net exchange differences on the retranslation of net investments	(776,801)	2,559,527
At 31 December	(18,291,567)	(17,129,625)
	2009 £	2008 £
Company		
At 1 January	(15,910,362)	(14,525,189)
Loss for the financial year	(3,687,868)	(1,444,500)
Share based payments	61,140	59,327
At 31 December	(19,537,090)	(15,910,362)

24 Minority interest

	2009 £	2008 £
Group		
At 1 January	286,320	158,128
Share of profits in Chinese subsidiaries	58,801	51,440
Share of net exchange differences on the retranslation of net assets	–	76,752
Net interests purchased by group	(345,121)	–
At 31 December	–	286,320

During the year the Group purchased the minority shareholders' shares held in GuiZhou GaoBao Sports Technology Co. Ltd., and Beijing JiXinYa Technology Development Co. Ltd.

25 Gross cash flows

	2009 £	2008 £
Group		
Operating activities		
Continuing operations		
Operating loss	(269,743)	(1,063,705)
Depreciation and impairment charges	52,444	26,275
Amortisation and impairment of intangible fixed assets	1,516,397	1,743,651
Share-based transaction costs	61,140	59,327
Currency translation adjustments	(241,938)	1,065,481
	1,118,300	1,831,029
Discontinued operations		
Operating profit	187,873	43,377
Depreciation and impairment charges	502	155
Impairment of investment	(181,258)	68,981
	8,117	112,513
Movements in working capital		
Decrease in stocks	–	2,803
Decrease/(increase) in debtors	419	(1,248,870)
Decrease in creditors	(538,578)	(547,966)
	(538,159)	(1,794,033)
Net cash generated in trading activities	588,258	149,509
Interest paid	(352)	(56,721)
Interest element of deferred purchase consideration	–	(22,223)
Net cash generated from operating activities	587,906	70,565
Investing activities		
Interest received	4,168	28,036
Purchases of intangible investments	–	(117,203)
Purchases of property, plant and equipment	(44,935)	(4,406)
Proceeds on disposal of property, plant and equipment	17,875	149,656
Increase in non-current other receivables	–	(140,423)
Acquisition of minority interests in subsidiaries	(345,121)	–
	(368,013)	(84,340)
Management of liquid resources		
Movement in longer term deposits	–	1,538,232
Net cash used in investing activities	(368,013)	1,453,892
Financing activities		
Repayment of Loans	–	(1,713,394)
Proceeds of Issue of share capital (net of issue costs and loans converted)	–	875,000
Net cash used in financing activities	–	(838,394)

25 Gross cash flows (continued)

	2009 £	2008 £
Company		
Operating activities		
Continuing operations		
Operating loss	(3,722,072)	(1,538,278)
Depreciation and impairment charges	13,087	21,872
Amortisation and impairment of intangible fixed assets	127,673	268,912
Amortisation and impairment of investments	3,725,582	–
Share-based transaction costs	61,140	59,327
Currency translation adjustments	–	(178,704)
	205,410	(1,366,871)
Discontinued operations		
Operating profit	–	43,273
Depreciation and impairment charges	–	–
Loss on disposal of fixed assets	–	(37,996)
	–	5,277
Movements in working capital		
(Increase)/decrease in receivables	(112,963)	89,181
Decrease in payables	(69,419)	(349,852)
	(182,382)	(260,671)
Net cash used in trading activities		
Interest paid	23,028	(1,622,265)
	(352)	(28,643)
Net cash used in operating activities		
	22,676	(1,650,908)
Investing activities		
Interest received	34,555	79,149
Purchases of property, plant and equipment	(8,758)	–
Proceeds on disposal of property, plant and equipment	997	101,632
Acquisition of subsidiaries shares	–	(467,000)
Proceeds of disposal of Subsidiary	–	37,996
	26,794	(248,223)
Management of liquid resources		
Movement in longer term deposits	–	–
Movement in 7 Day deposit account balance	–	1,538,232
Net cash used in investing activities		
	26,794	1,290,009
Financing activities		
Repayment of Loan Notes	–	(437,680)
Proceed of issue of Loan Notes	–	–
Proceeds of Issue of share capital (net of issue costs and loans converted)	–	875,000
Net cash used in financing activities		
	–	437,320

26 Major non-cash transactions

	2009 £	2008 £
Group		
Conversion of 7.5% Convertible Secured Loan Notes 2008	–	54,102
	–	54,102
	2009 £	2008 £
Company		
Conversion of 7.5% Convertible Secured Loan Notes 2008	–	54,102
	–	54,102

27 Subsequent events

Contract with Nanjing Welfare Lottery Management Centre

On 25 January 2010 the Group's Chinese operation signed an exclusive 5-year contract with Nanjing Welfare Lottery Management Centre to launch and operate a new retail lottery concept across Nanjing, the capital of Jiangsu Province.

The new agreement allows the Group to promote and sell all Welfare Lottery products from kiosk-style point-of-sale outlets in high-footfall locations including supermarkets. Products include traditional computerised lottery games, scratchcards and high-frequency draws. The Company will initially operate 20 Betex and Welfare Lottery co-branded kiosks for six months from late March before extending the retail estate to 150 by the end of 2010.

Betex has also signed distribution agreements with a number of premier retail brand outlets in Nanjing, which will allow the Company to site kiosks within selected high-footfall stores throughout the licence period.

Incorporation of Nanjiing Gaobao Marketing Planning Co., Ltd.

The Group incorporated a new subsidiary company, Nanjiing Gaobao Marketing Planning Co., Ltd., in Jiangsu Province, The Peoples' Republic of China, in January 2010 in order to run the new contract referred to above.

28 Capital commitments

There were no amounts contracted for but not provided in the accounts (2008: Nil).

29 Other financial commitments

At the year end the minimum lease payments under non-cancellable operating leases were as set out below:

	Land and buildings		Other	
	2009 £	2008 £	2009 £	2008 £
Group				
Operating leases which expire:				
within one year	108,160	96,377	–	–
between one and five years	67,945	98,774	–	–
	176,105	195,151	–	–

The Company does not have any financial commitments under operating leases.

30 Related parties

J Hon

As previously reported, unpaid debts due from Global Group companies appear to be in breach of the Companies Act and as such Dr J S Hon, as the controlling party of the Global Group Companies, was required to indemnify the Group against any loss arising from the transactions (which includes the unpaid element of the debts). On 5 November 2009 the Group reached a settlement with Dr Hon resulting in the receipt of £235,965 from the sale of Dr Hon's shares in the Company to third parties, in full and final settlement of any monies due from him. The Company had to repay £24,953 of VAT previously recovered under the Bad Debt relief scheme. The net receipt has been shown as an exceptional item (see note 3 above).

	Expenses re-imbursed £	Shares purchased from Dr Hon No. Of Shares	£
Other Directors			
J J Longley	27,507	–	–
S F Spector	12,984	–	–
A von Franckenstein	5,761	1,380,126	34,503
D F Cowham	–	2,000,000	50,000
J W Blower	–	2,000,000	50,000

Details of the Directors' remuneration are set out in the report of the remuneration committee. The Directors are considered to be the Group's key management personnel.

On 29 January 2009 K Sun was awarded 500,000 share options exercisable at 2.5p and on 31 December 2009 he was awarded a further 1,500,000 share options exercisable at 5p. Both vest after a time elapsed period subject to continuing employment with the company (see note 20 above).

Li Haili

During the year the Group acquired Mr Li Haili's minority shareholding in two of the Group's subsidiaries in China and settled consultancy contracts he had with them and another subsidiary. The total amount paid was £870,516 (RMB 9,369,563). In 2008 he was paid £256,901 (RMB 3,315,128) in consultancy fees.

Betex

	2009 £	2008 £
Management Charges to Chinese subsidiaries	754,176	367,569
Interest Charges to Chinese subsidiaries	33,430	65,915
Net funding provided to subsidiary companies	196,991	1,009,352
Provision against non-recovery	(6,096)	980,030
Outstanding Balances at 31 December	8,469,656	8,272,665
Provision against non-recovery at 31 December	(7,105,978)	(7,112,074)

The net balances with the Company are shown as 'Non-current other receivables' in the Company's balance sheet. Provision has been made against balances due from loss making subsidiaries where that company has a net deficit position.

31 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.

31 Financial instruments (continued)

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 does not have any external borrowings at the balance sheet date in either the UK or China. The Group has no other assets or liabilities that are subject to interest rate fluctuations.

Credit Risk

Lottery fee income is payable by the relevant provincial Sports Lottery Management Centres. These are provincial government departments of The Peoples' Republic of China and once the amounts payable have been agreed it is considered that there is virtually no risk of non-payment.

Liquidity risk

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

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 income statement.

Management charges to Chinese subsidiaries are received in US Dollars. In order to reduce the Company's exposure to fluctuations in the exchange rate with Sterling the Company has entered into a forward exchange contract as a hedge against this fluctuation.

Financial assets

Bank deposits and balances

The interest rate profile of the Group's financial assets at 31 December 2009 was:

Currency	Total £	Fixed rate financial assets £	Financial assets on which interest is paid at a variable rate £
Sterling	193,543	–	193,543
Chinese Renminbi (RMB)	1,155,751	–	1,155,751
Hong Kong Dollars	1,284	–	1,284
Total	1,350,578	–	1,350,578

Financial liabilities

The Group had the following financial liabilities at 31 December 2009 (2008: £Nil).

		Outstanding Foreign Currency	Notional Value
Sell US Dollars	Expiry Date 18 July 2011	\$632,500	£385,906

At 31 December 2009 the Group had a potential exposure of £5,371 due to the difference between the forward contract's fixed rate and the mid market rate for the US Dollar. This exposure would only be payable should the Company abandon the contract and its value fluctuates daily with the movements in the mid-market rate.

Currency exposures

As at 31 December 2009 the Group's main currency exposure relates to the effect of re-translation of the Group's net investment in the Chinese operations. A 1% change in the RMB/£ exchange rate would give rise to a change of approximately £51,000 in the Group net assets and no impact on reported earnings.

31 Financial instruments *(continued)*

Financial assets and liabilities hierarchy

The Group is required to provide an analysis of financial instruments at 31 December 2009 that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Bank deposits and balances of £1,350,578 (2008: £1,130,685) have been categorised as Level 1 as described above while the forward currency contracts of £5,371 (2008: £Nil) have been categorised as Level 2.

32 Recent accounting pronouncements

a) New interpretations and revisions to existing standards effective for the year ended 31 December 2009.

The Group adopted all interpretations and revisions to existing standards effective for the year ended 31 December 2009. The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRC) have issued revisions to a number of existing standards and new interpretations with an effective date of implementation of periods beginning 1 January 2009. A number of standards have also been revised as a result of the 2007 IASB improvements project.

The following revisions to existing standards had an impact on the consolidated accounts during the period.

IAS 1 Presentation of Financial Statements

The revision made substantial changes to the disclosure required in the accounts, as well as changing the presentation of performance. The group presents an income statement and a statement of comprehensive income, while the statement of changes in equity is restricted to capital items.

IFRS 2 Share-based Payments

The revision clarifies the definition and treatment of vesting conditions and cancellations of instruments.

IFRS 7 Financial Instruments Disclosures

The revision required all financial instruments carried at fair value to be grouped into levels 1 to 3 based on the degree to which the fair value is observable.

IFRS 8 Operating Segments

The standard sets out the requirements for disclosure of information about an entity's operating segments, its products and services, its geographical areas in which it operates and its major customers.

b) Standards and interpretations in issue but not yet effective

The International Accounting Standards Board ('IASB') and International Financial Reporting Interpretations Committee ('IFRIC') have also issued revisions to a number of existing standards and new interpretations with an effective date of implementation after the date of these accounts. A number of standards have also been revised as a result of the 2007 IASB improvements project and the Business Combination project.

The Directors do not anticipate that the adoption of these revised standards and interpretations will have a material impact on the figures included in the consolidated accounts in the year of initial application.

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