

**Betex 百泰斯**

**Betex Group plc  
Interim Report for  
the 6 months ended  
30 June 2007**



## Consolidated Income Statement for the 6 months ended 30 June 2007

	Notes	Unaudited 6 months to 30 June 2007 £ 000	Unaudited 6 months to 30 June 2006 £ 000	Audited Year Ended 31 December 2006 £ 000
<b>Turnover</b>	2	7,034	7,340	20,801
Cost of sales		(5,890)	(6,215)	(18,647)
Other trading income	3	91	(367)	641
<b>Gross profit</b>		1,235	758	2,795
Administrative expenses		(3,147)	(2,214)	(7,746)
– including exceptional items	4	(760)	–	(1,522)
Other operating income		1	–	–
<b>EBITDA</b>		(1,911)	(1,456)	(4,951)
Amortisation & Depreciation		(835)	(775)	(2,324)
– including exceptional items	4	–	–	(905)
<b>Operating loss</b>	4	(2,746)	(2,231)	(7,275)
Loss on the disposal of tangible fixed assets		–	–	(363)
		(2,746)	(2,231)	(7,638)
Income from investments		–	61	21
Interest receivable		79	165	343
Amounts written off investments		–	–	(1,150)
Interest payable		(63)	(538)	(613)
<b>Loss on ordinary activities before taxation</b>		(2,730)	(2,543)	(9,037)
Tax on loss on ordinary activities		–	–	–
<b>Loss for the period</b>		(2,730)	(2,543)	(9,037)
<b>Attributable to:</b>				
Minority interest		(70)	(50)	(235)
Equity holders of the parent		(2,660)	(2,493)	(8,802)
<b>Loss per share equity holders of parent</b>	5	(1.96)p	(2.21)p	(7.09)p
<b>Loss per share – fully diluted</b>	5	(1.96)p	(2.21)p	(7.09)p

## Consolidated Statement of Recognised Income and Expenses for the 6 months ended 30 June 2007

	Unaudited 6 months to 30 June 2007 £ 000	Unaudited 6 months to 30 June 2006 £ 000	Audited Year Ended 31 December 2006 £ 000
<b>Loss for the period</b>	(2,730)	(2,543)	(9,037)
Net exchange differences on the retranslation of net investments	(61)	(124)	(406)
<b>Total recognised income and expenses related to the period</b>	(2,791)	(2,667)	(9,443)
<b>Attributable to:</b>			
Minority interest	(70)	(50)	(235)
Equity holders of the parent	(2,721)	(2,617)	(9,208)

# Consolidated Balance Sheet as at 30 June 2007

	Notes	Unaudited 30 June 2007 £ 000	Unaudited 30 June 2006 £ 000	Audited 31 December 2006 £ 000
<b>Non-current assets</b>				
Goodwill		560	1,178	564
Plant and equipment		1,059	900	1,155
Investments in China		6,677	4,080	7,942
Other investments		30	725	24
		<u>8,326</u>	<u>6,883</u>	<u>9,685</u>
<b>Current assets</b>				
Inventories		3	5	3
Trade and other receivables		3,603	3,858	3,150
Cash and cash equivalents		2,469	12,821	4,547
		<u>6,075</u>	<u>16,684</u>	<u>7,700</u>
<b>Total current assets</b>				
<b>Current liabilities</b>				
Financial liabilities - borrowings		(1,682)	(3,012)	(1,439)
Trade and other payables		(2,458)	(861)	(2,317)
Current tax liabilities		(324)	(346)	(188)
		<u>(4,464)</u>	<u>(4,219)</u>	<u>(3,944)</u>
<b>Total current liabilities</b>				
<b>Net current assets</b>				
		1,611	12,465	3,756
<b>Non-current liabilities</b>				
Financial liabilities - borrowings		-	(1,019)	(1,044)
		<u>9,937</u>	<u>18,329</u>	<u>12,397</u>
<b>Net assets</b>				
<b>Equity</b>				
Called up share capital		1,360	1,336	1,350
Share premium		22,580	22,435	22,420
Other reserve		560	560	560
Retained losses		(14,797)	(5,941)	(12,230)
<b>Equity attributable to equity holders of the parent</b>				
	6	9,703	18,390	12,100
<b>Minority interest</b>				
		234	(61)	297
<b>Total equity</b>				
		<u>9,937</u>	<u>18,329</u>	<u>12,397</u>

## Consolidated Cash Flow Statement for the 6 months ended 30 June 2007

	<i>Notes</i>	Unaudited 6 months to 30 June 2007 £ 000	Unaudited 6 months to 30 June 2006 £ 000	Audited Year Ended 31 December 2006 £ 000
<b>CASH FLOW STATEMENT</b>				
<b>Net cash used in operating activities</b>	7	(2,109)	(2,617)	(7,013)
<b>Investing Activities</b>				
Returns on investments and servicing of finance	7	16	(373)	(201)
Capital expenditure and financial investments	7	(162)	(4,083)	(6,422)
Acquisition of subsidiaries	7	–	(2)	(798)
<b>Net Cash used in investing activities</b>		(146)	(4,458)	(7,421)
<b>Financing activities</b>				
Proceeds on issue of shares		170	12,862	13,138
Minority's share of equity		7	–	406
New Loans raised		–	3,322	1,728
Repayment of finance lease rental		–	–	(3)
<b>Net Cash generated from financing activities</b>		177	16,184	15,269
<b>Net (Decrease)/increase in cash and cash equivalents</b>		(2,078)	9,109	835
Cash and cash equivalents at 1 January		4,547	3,712	3,712
<b>Cash and cash equivalents at 30 June</b>		<b>2,469</b>	<b>12,821</b>	<b>4,547</b>

# Notes to the Accounts for the 6 months ended 30 June 2007

## 1 Accounting policies

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

The next annual accounts of Betex Group plc ('the Group') will be prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU applied in accordance with the provisions of the Companies Act 1985.

Accordingly the interim financial information in this report has been prepared using accounting policies consistent with IFRS. IFRS is subject to amendment and interpretation by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) and there is an ongoing process of review and endorsement by the European Commission. The financial information has been prepared on the basis of IFRS that the Directors expect to be applicable as at 31 December 2007.

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

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

These accounts have been prepared under the historical cost convention.

### ***IFRS transition***

IFRS 1 permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. The interim accounts have been prepared on the basis of the following exemptions:

– Business combinations prior to 1 January 2006 have not been restated to comply with IFRS 3 'Business Combinations'.

The disclosures required by IFRS 1 concerning the transition from UK Generally Accepted Accounting Practice (UK GAAP) to IFRS are given in Note 8.

### ***Non-statutory accounts***

The financial information for the year ended 31 December 2006 set out in this interim report does not comprise the Group's statutory accounts as defined in section 240 of the Companies Act 1985.

The statutory accounts for the year ended 31 December 2006, which were prepared under UK GAAP, will be delivered to the Registrar of Companies. The auditors' report was not qualified but contained an Emphasis of Matter regarding Going Concern. The auditors considered the disclosure set out below concerning the fundamental uncertainty as to the Group's short and medium term viability, and stated that those accounts do not include any adjustments that would result from a failure to obtain funding in the short term. They also stated that it may not be practical to quantify the adjustments that might be required but, should any adjustments be required, they may be significant.

The financial information for the period ended 30 June 2007 has not been audited and does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 for the Group.

### ***Corporate restructuring***

During 2005 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).

### ***Merger accounting***

In the Group Accounts, merged subsidiary undertakings are treated as if they had always been a member of the Group. Thus the Group accounts reflect the substance of the corporate restructuring (see above) incorporating the trading of Betex Management Limited and its subsidiaries from 1 January 2005 rather than just the date of the merger with Betex Group plc.

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

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

### ***Going concern***

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

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

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

### ***Acquisitions and goodwill***

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

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

#### **United Kingdom**

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

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

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

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

#### **China**

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

### ***Tangible assets***

Tangible fixed assets are stated at cost less accumulated depreciation and any recognised impairment loss.

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

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

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

### ***Investments in China***

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. They are measured at initial recognition at the lower of amount invested together with their costs of acquisition or fair value.

These investments are subsequently measured at amortised cost over the life of the relevant contracts, subject to an annual impairment test. The amortisation and any losses arising from impairment are recognised through 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.

### ***Stocks***

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

### ***Deferred taxation***

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

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

### ***Foreign currencies***

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

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

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

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

The interest element of the rental obligations is charged to the 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. 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.

## 2 Turnover

### Segmental information:

	Turnover £ 000	Gross win/(loss) £ 000	Gross profit/(loss) £ 000	Operating Loss £ 000	Net Assets £ 000
<b>Six Months ended 30 June 2007</b>					
<b>Lottery/China</b>					
Lottery fees	1,333	1,333	935		
Other lottery income	3,787	1,175	43		
	5,120	2,508	978	(707)	6,463
<b>Betting/UK</b>					
Customer stakes	1,914	197	166		
Other trading income	–	–	91		
	1,914	197	257	(454)	(3,651)
<b>Common Costs (UK)</b>					
				(1,585)	7,125
	7,034	2,705	1,235	(2,746)	9,937
<b>Six Months ended 30 June 2006</b>					
<b>Lottery/China</b>					
Lottery fees	814	814	768		
Other lottery income	–	–	–		
	814	814	768	(397)	3,576
<b>Betting/UK</b>					
Customer stakes	6,526	387	357		
Other trading income	–	–	(367)		
	6,526	387	(10)	(849)	(3,367)
<b>Common Costs (UK)</b>					
				(985)	18,120
	7,340	1,201	758	(2,231)	18,329
<b>Year ended 31 December 2006</b>					
<b>Lottery/China</b>					
Lottery fees	1,582	1,582	1,506		
Other lottery income	8,201	2,984	202		
	9,783	4,566	1,708	(1,200)	6,797
<b>Betting/UK</b>					
Customer stakes	11,018	521	446		
Other trading income	–	–	641		
	11,018	521	1,087	(1,503)	(3,344)
<b>Common Costs (UK)</b>					
				(4,572)	8,944
	20,801	5,087	2,795	(7,275)	12,397

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

Lottery software sales are made through an operating licence granted to an individual and by him through a network of agents. Under FRS 5 the Group has incorporated the gross turnover and direct costs from the agents' and licensee's activities in the consolidated accounts. Sales tax in China is only payable by companies, and not individuals, therefore the Group has only accrued this tax on the net amount of £14,705 RMB224,021 (31.12.2006: £133,796 RMB1,964,801) receivable by the subsidiary company concerned. If Sales tax was payable on the gross turnover an additional provision of £73,153 RMB1,114,465 (31.12.2006: £401,506 RMB 5,896,122) would be required. However in the opinion of the Directors this is unlikely to be payable and no additional provision has been made in these accounts.

Following the events described in the 2006 statutory accounts there is doubt as to the legality of the Lottery Software trading in China included under the heading 'Other Lottery' above. This will not be determined until after the individuals concerned have been brought to trial which may be some months away. The Group has received legal advice that, as far as the Group is concerned, the trading was not in contravention of the law in China, but until the matter is resolved by the courts that division has been closed down. Should it turn out that the trading was illegal the subsidiary company concerned could face a fine and the proceeds of the illegal trading confiscated. The Board has therefore decided that it would be prudent to make full provision against the net profit earned by that trade receivable from the licensed individual £14,705 RMB224,021 (31.12.2006: £126,625 RMB 1,859,494), to write off the remaining cost of the software product £Nil (31.12.2006: £18,159 RMB 266,665) and to cancel payment of the final instalment due on the software product £Nil (31.12.2006: £19,625 RMB300,000).

### 3 Other trading income

	Six months ended 30 June 2007 £ 000	Six months ended 30 June 2006 £ 000	Year ended 31 December 2006 £ 000
<b>Proprietary bets placed by the Group:</b>			
Amounts staked	(14,994)	(35,614)	(63,014)
Returns	15,085	35,247	63,655
<b>Net trading income</b>	<b>91</b>	<b>(367)</b>	<b>641</b>

#### 4 Group operating loss

	Six months ended 30 June 2007 £ 000	Six months ended 30 June 2006 £ 000	Year ended 31 December 2006 £ 000
This is stated after charging:			
Exceptional items			
– Settlement with former directors	421	–	–
– redundancy costs on closure of division	132	–	–
– legal costs re events in China	207	–	–
– provision for non-recovery of deposits	–	–	714
– consultancy and lobbying fees not resulting in new business	–	–	808
	760	–	1,522
– impairment of goodwill	–	–	905
	760	–	2,427
Depreciation and impairment of owned fixed assets	179	105	319
Depreciation of assets held under finance leases and hire purchase contracts	–	2	2
Loss on disposal of fixed assets	8	–	–
Amortisation of investments	648	637	1,083
Operating lease rentals – land and buildings	296	77	353
Share based transaction costs	155	183	478

#### 5 Loss per share

	Six months ended 30 June 2007 £ 000	Six months ended 30 June 2006 £ 000	Year ended 31 December 2006 £ 000
Based on the loss for the period attributable to equity holders of the parent			
	(2,660)	(2,493)	(8,802)
Weighted average number of shares:			
	<b>Number</b>	<b>Number</b>	<b>Number</b>
For basic loss per share	135,618,622	112,906,839	124,066,000
Share warrants and Options	25,090,566	23,312,388	24,529,000
For diluted loss per share	160,709,188	136,219,227	148,595,000

#### 6 Reconciliation of movement in equity shareholders' funds

	Six months ended 30 June 2007 £ 000	Six months ended 30 June 2006 £ 000	Year ended 31 December 2006 £ 000
<b>Group</b>			
At 1 January	12,100	2,069	2,069
Loss for the period attributable to equity holders of the parent	(2,660)	(2,493)	(8,802)
Net exchange differences on the retranslation of net investments	(61)	(124)	(406)
Shares issued	169	18,755	18,761
Share based transaction charges	155	183	478
<b>At 30 June</b>	<b>9,703</b>	<b>18,390</b>	<b>12,100</b>

## 7 Gross cash flows

	Six months ended 30 June 2007 £ 000	Six months ended 30 June 2006 £ 000	Year ended 31 December 2006 £ 000
<b>Group</b>			
<b>Cash used in operations</b>			
<b>Loss for period</b>	(2,730)	(2,543)	(9,037)
Loss on disposal of fixed assets	–	–	363
Income from investments	–	(61)	(21)
Interest receivable	(79)	(165)	(343)
Amounts written off investments	–	–	1,150
Interest payable	63	538	613
<b>Operating loss</b>	(2,746)	(2,231)	(7,275)
Depreciation and impairment charges	179	107	321
Amortisation and impairment of intangible fixed assets	–	31	920
Amortisation and impairment of investments	648	637	1,083
Share-based transaction costs	155	183	478
Currency translation adjustments	566	152	(72)
	(1,198)	(1,121)	(4,545)
Increase in stocks	–	–	(3)
Increase in debtors	(1,188)	(990)	(280)
Increase/(decrease) in creditors	277	(506)	(2,185)
<b>Cash used in operations</b>	(2,109)	(2,617)	(7,013)
<b>Returns on investments and servicing of finance</b>			
Dividends received	–	–	21
Interest received	78	165	343
Interest paid	(62)	(106)	(121)
Finance costs on issue of 5% Convertible Loan Notes 2006	–	(432)	(444)
	16	(373)	(201)
<b>Capital expenditure and financial investments</b>			
Payments to acquire tangible fixed assets	(4)	(354)	(1,246)
Payments to acquire investments	(169)	(3,729)	(5,236)
Receipts from sales of tangible fixed assets	11	–	60
	(162)	(4,083)	(6,422)
<b>Acquisition of subsidiaries</b>			
Payments to acquire subsidiary undertakings	–	(2)	(798)

## 8 Transition to IFRS

Betex Group plc reported under UK GAAP in its previously published accounts for the year ended 31 December 2006. Following the events in China in April 2007 and the subsequent changes in management, the Board carried out a detailed impairment review of the Group's assets. The adoption of IFRS has not given rise to any significant changes in the fair values of assets and liabilities previously reported.

## **9 Post Balance Sheet Events**

On 16 August, Dr J S Hon disposed of his holding of 5% Convertible Unsecured Loan Note 2008 for cost plus accumulated interest.

On 26 September, Simon Spector , the Company Secretary who was acting as Chief Financial Officer, was appointed as a Director and Chief Financial Officer.

In order to provide funding for the Group's continuing operations in November 2007 the Board agreed to issue 5,000,000 Ordinary shares of 1p each at 5p per share and issue £500,000 of Convertible Secured Loan Notes.





