

**Sportingbet (Product Services) Limited**

**Company number: 3984719**

Report and Financial Statements

Year Ended

31 July 2008

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# **SPORTINGBET (PRODUCT SERVICES) LIMITED**

**Annual report and financial statements for the year ended 31 July 2008**

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Directors

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## **Directors**

A McIver  
J Wilkinson

## **Secretary and registered office**

D J Talisman, 4<sup>th</sup> Floor, 45 Moorfields, London. EC2Y 9AE

## **Company number**

3984719

## **Auditors**

Grant Thornton UK LLP, Grant Thornton House, Melton Street, Euston Square,  
London. NW1 2EP

## **SPORTINGBET (PRODUCT SERVICES) LIMITED**

### **Report of the directors for the year ended 31 July 2008 (*Continued*)**

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The directors present their report together with the audited financial statements for the year ended 31 July 2008.

#### **Results and dividends**

The profit and loss account is set out on page 9 and shows the result for the year. The directors do not recommend the payment of a dividend.

#### **Principal activities**

In August 2007, the Company began to provide general product services to other Group companies.

#### **Trading review**

The financial performance highlights for the year ended 31 July 2008 are as follows:

- Turnover and gross profit of £3.4m (2007: £nil), following a successful first year of trading.
- Administrative expenses of £3.4m (2007: £nil).
- Profit before and after tax of £0.04m (2007: £nil).
- Net assets at year end of £0.5m (2007: £1).

#### **Risk and uncertainties**

The global supply of betting and gaming services remains subject to complex regulatory issues, including various trade barriers, and a lack of consistency in jurisdictions' determination of where an online gambling transaction takes place. The Group continues to provide its services only from jurisdictions where it is licensed and regulated, and therefore the legal position in its place of supply (and where its regulator and applicable local laws deem the gambling transaction to take place) is explicitly legal.

In order to provide its worldwide gambling service, the Group currently maintains licences in the UK, Alderney, Italy, Northern Cyprus, Antigua and Australia.

Major issues of note in the last 12 months include:

- an ongoing lack of appetite amongst operators to elect to obtain a licence in the UK, motivated principally by the punitive tax rate
- greater European Commission pressure on EU Member States to justify their national gambling regimes in light of the free trade requirements of EU law
- an apparent move towards greater liberalisation in a number of EU jurisdictions, including France, Spain and Italy
- passage of the prohibitive Interstate Gambling Treaty in Germany
- a landmark High Court decision in Australia relating to the interstate supply of gambling services
- the recent court order authorising the seizure of 141 gambling related domain names in the Commonwealth of Kentucky

#### **1. United Kingdom**

The Group operates via an Alderney licence, and is therefore permitted to continue to advertise into the UK following the Gambling Act 2005 coming into full force in September 2007. The Island of Alderney is specified by a subsequent regulation to the Gambling Act (Gambling Act 2005 (Advertising of Foreign Gambling) Regulations 2007) as a "whitelisted" jurisdiction for the purposes of UK advertising, (including the right to advertise on television). Such advertising is restricted to "remote gambling" which is defined as gambling by means of a form of remote communication, such as the Internet, telephone or television.

## **SPORTINGBET (PRODUCT SERVICES) LIMITED**

### **Report of the directors for the year ended 31 July 2008 (*Continued*)**

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#### **Risk and uncertainties (*continued*)**

A key consideration in the Group's decision to relocate to Alderney was the favourable tax regime compared to that of the UK. It is clear that following the UK government's decision to impose a 15% gross profits tax on UK licensed online gambling operators, only a limited number of operators are electing to licence their online operations in the UK.

#### **2. The European Union**

In Europe, the market continues to move slowly towards a liberalisation of supply.

Member States are subject to scrutiny from The European Commission (the "Commission") and, as "guardian" of the EC Treaty, it closely monitors existing and developing legislation in the EU. The principal method by which the Commission has applied pressure on Member States is through the use of 'infringement proceedings' against states in contravention of EC law. Through such proceedings, the Commission has asked a number of States to explain or even amend their laws restricting the free movement of gambling services. If Member States fail to comply, they will potentially be subject to legal action from the Commission. However, such a process is extremely slow, and while it undoubtedly exerts pressure on Member States, they have thus far been given months to comply. It is over two years since the first infringement proceedings in the gambling sector were commenced, and the Commission has yet to take any Member State to court, despite ongoing non-compliance. Hungary, for example, was issued a Reasoned Opinion from the Commission in March 2007, giving it three months to amend its laws or face court action from the Commission. It has yet to implement revised laws, but has to date not faced any Court action for its failure to do so.

However, the ongoing pressure from the Commission, and in some cases national court decisions declaring domestic legislation to be incompatible with EU law, has led to a domestic review of prohibitive legislation in a number of jurisdictions, including France, Italy and Sweden.

While Member States have a growing appreciation of the reality that they might be required to liberalise their markets, the precise extent to which they will in fact do this remains to be seen. For example, on the one hand, the UK model entirely respects the principle whereby any operator licensed within the EEA (or in a whitelisted jurisdiction), is able to target the local market. Conversely, the Italian model permits a number of EU-based operators to licence in the jurisdiction, but requires a separate Italian licence.

#### **3. France**

France has historically been a staunch opponent of the provision of online gambling services by operators without a French licence, and it currently remains the position that the French authorities deem such activity to be illegal.

However, the Commission has put substantial pressure on France's domestic regulation of online gambling, stating that its laws are not compatible with EU law. Accordingly, the French have undertaken a period of internal review.

#### **4. Spain**

As a result of the legal uncertainty over the legality of the provision of online gambling, which is not expressly prohibited by Spanish law, Spain has historically adopted a tolerant approach to the supply of foreign gambling services into the jurisdiction.

## **SPORTINGBET (PRODUCT SERVICES) LIMITED**

### **Report of the directors for the year ended 31 July 2008 (*Continued*)**

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#### **Risk and uncertainties (*continued*)**

Madrid and the Basque region have both introduced licensing regimes for online betting, which has led to the Spanish government considering a nationwide system of regulation which will permit operators to obtain a Spanish gambling licence.

#### **5. Italy**

Italy has changed its monopoly-orientated stance on online gambling and has started to permit a number of non-Italian bookmakers to obtain licences to operate online betting offerings from certain outlets such as newsagents, bars and cafes.

However, Italy currently requires that even EU-licensed operators obtain an additional gambling licence in Italy in order to target its domestic market. Such an approach appears to be in breach of the EU principle of mutual recognition of businesses licensed elsewhere in the EU. It remains to be seen whether such a stance will be permitted by the Commission in the long term.

#### **6. Germany**

Despite criticism from the Commission that it was in breach of EU law, Germany passed the Interstate Gambling Treaty on 1 January 2008. The Treaty effectively provides that all forms of online gambling are unlawful where they are targeted at German residents.

However, the Treaty was immediately subject to infringement proceedings by the Commission in light of its apparent incompatibility with EU law, notably the fact that there was no obvious justification for Germany to close the online market and restrict gambling activity within Germany to state monopolies. Whilst enforcement action against operators where they actively target German residents (including through local marketing and even operation) has been curbed due to the lack of clarity in the legal position, there can be no guarantee that enforcement action will not occur.

#### **7. Australia**

In March 2008, the High Court ruled in favour of a claim brought by Betfair against the state of Western Australia. The proceedings involved a challenge by Betfair against prohibitions introduced by Western Australia which precluded persons placing bets on Betfair and publishing Western Australian race fields without the relevant approval, on the grounds that they were an unfair (and unconstitutional) restriction on competition in circumstances where Betfair held a Tasmanian licence. Further protectionist legislation in New South Wales (introduced in July 2008), which requires a fee to be paid before state racing information can be published by betting operators is also subject to an ongoing legal challenge. It is also argued that such fees are an unconstitutional violation of Australian free trade principles.

#### **8. United States**

Following the ruling in the US's ongoing World Trade Organisation (WTO) dispute with Antigua and Barbuda, which held in favour of Antigua, the US elected to withdraw gambling services from its WTO free trade commitments. As a result, the US was required to agree compensation arrangements with a number of affected jurisdictions, including the European Union, which it did in December 2007. However, such compensation measures failed to redress the position for the affected gambling industry, as it merely permitted the EU greater freedoms in certain other, non-gambling, areas of US trade.

## **SPORTINGBET (PRODUCT SERVICES) LIMITED**

### **Report of the directors for the year ended 31 July 2008 (*Continued*)**

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#### ***Risk and uncertainties (continued)***

There have been suggestions that, in light of the economic downturn in the US, and the resultant loss of revenue for land-based casino operators, a form of wider liberalisation may occur in the online gambling market. However, no legislative efforts have yet been successful on this point.

In a recent development, the Commonwealth of Kentucky was successfully awarded a preliminary seizure Order on 18 September by the Franklin Circuit Court in Kentucky for the seizure and forfeiture of 141 domain names that are alleged to have been used in connection with illegal gambling activity within the Commonwealth of Kentucky in violation of local state laws. No domain names owned by, or associated with Sportingbet were among the 141 subject to the Court Order and none of the company's domain names are managed by a US Company. The worldwide enforceability of an order made by a Kentucky court remains unclear.

#### **9. Asia**

The Asian market continues to develop, although it currently remains subject to very specific methods of business, such as the use of agents, very cash based payment systems, or with the provision of credit to customers. Accordingly, while the betting and gaming markets are substantial, they are heavily dominated by a number of Eastern-based operators with a deep-rooted position and understanding of the local gambling culture. The extent to which Western operators will challenge this oligopoly remains to be seen. Additionally, the regulatory regime in many Asian countries is currently prohibitive and, at present, the Group has no operations or activities in Asia.

#### **10. Turkey**

Anti-online gambling legislation was introduced in Turkey in February 2007 to underpin the State monopoly, although it remains legal for customers to transact with offshore online operators. The Group continues to accept bets from Turkish residents, although it does not have employees nor does it conduct advertising in the territory. However, two Group employees were arrested when making visits to Turkey in May 2008 on personal business, one has been subsequently released and has returned to the UK. The remaining employee has been released pending trial and charges have yet to be formalised.

#### **Future developments**

The Company intends to continue to provide general product services to other Group companies.

#### **Directors**

The directors of the Company during the year were:

A McIver

J Wilkinson (appointed 16 April 2008)

D Hobday (resigned 12 May 2008)

## **SPORTINGBET (PRODUCT SERVICES) LIMITED**

### **Report of the directors for the year ended 31 July 2008 (*Continued*)**

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#### **Treasury management**

The Company's Treasury function provides a centralised service for the provision of finance and the management and control of liquidity, foreign exchange and interest rates. The function operates as a cost centre and manages the Company's treasury exposure to reduce risk in accordance with policies approved by the Board.

It is not the policy of the Company to trade in or enter into speculative transactions. Authorities, procedures and reporting responsibilities are documented and regularly reviewed.

Due to the international nature of its core activities, the Company's reported profits, net assets and cash flows are all affected by foreign exchange rate movements.

Operations are financed by a mixture of retained profits, bank borrowings and long term loans. In addition, various financial instruments, such as trade debtors and trade creditors, arise directly from the Company's operations.

#### **Policy and practice of payment of suppliers**

It is the policy of the Company to agree appropriate terms and conditions for its transactions with suppliers by means ranging from standard written terms to individually negotiated contracts. Payments are made in accordance with these terms and conditions. At 31 July 2008 the Company had a trade creditor balance of £0.5m (2007: £nil). Trade creditors represented 40 days of purchases (2007: nil days).

#### **Going concern**

The directors have considered the implications of the potential impact of regulatory uncertainties discussed in note 14. The directors have reviewed the cash flow projections for the Company in light of these uncertainties and have considered the financial resources available to the Company. Accordingly, the directors have a reasonable expectation that the Company has adequate resources to continue operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

#### **Directors' responsibilities**

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

## SPORTINGBET (PRODUCT SERVICES) LIMITED

### Report of the directors for the year ended 31 July 2008 (*Continued*)

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#### Directors' responsibilities (*continued*)

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

#### Auditors

So far as each of the directors is aware, there is no relevant audit information of which the Company's auditors are unaware. Each of the directors 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.

Grant Thornton UK LLP have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the next annual general meeting.

#### By order of the Board

*D.J. Talisman*

D J Talisman  
Secretary

Date: 27/1/09



## **SPORTINGBET (PRODUCT SERVICES) LIMITED**

### **Report of the independent auditor**

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#### **To the members of Sportingbet (Product Services) Limited**

We have audited the financial statements of Sportingbet (IT Services) Limited for the year ended 31 July 2008 which comprise the profit and loss account, the balance sheet and notes 1 to 14. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### *Respective responsibilities of directors and auditors*

The directors' responsibilities for preparing the Report of the directors and financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the directors is consistent with the financial statements.

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

We read the Report of the directors and consider the implications for our report if we become aware of any apparent misstatements within it.

#### *Basis of audit opinion*

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

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

## SPORTINGBET (PRODUCT SERVICES) LIMITED

### Report of the independent auditor (*continued*)

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#### *Opinion*

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 July 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the directors is consistent with the financial statements.

#### *Emphasis of matter – regulatory uncertainty*

In forming our opinion on the Financial Statements, which is not qualified, we have considered the adequacy of, and draw attention to, the disclosures made in note 14 regarding the implications of, and uncertainties arising from, regulatory developments concerning on-line gambling and related activities in the United States, Turkey and parts of Europe. There is uncertainty as to the impact such regulatory developments may have on the Group, of which the Company is a member. Note 14 includes a statement that the Board does not consider it probable that a material liability or impairment in the carrying value of assets will arise as a result of any potential action.



**GRANT THORNTON UK LLP**  
*Registered Auditor*  
*Chartered Accountants*  
London

Date : *26 March 2009*

**SPORTINGBET (PRODUCT SERVICES) LIMITED****Profit and loss account for the year ended 31 July 2008**

		<b>Year ended 31 July 2008 £000's</b>	<b>Year ended 31 July 2007 £000's</b>
	<b>Note</b>		
<b>Turnover</b>	2	<b>3,432</b>	-
Cost of sales		-	-
		<hr/>	<hr/>
<b>Gross profit</b>		<b>3,432</b>	-
Administrative expenses		(3,392)	-
		<hr/>	<hr/>
<b>Operating profit</b>	3	<b>40</b>	-
Operating profit before share option charge		<b>512</b>	-
Share option charge	3	(472)	-
		<hr/>	<hr/>
<b>Operating profit</b>	3	<b>40</b>	-
Taxation	5	-	-
		<hr/>	<hr/>
<b>Profit on ordinary activities after taxation</b>	12	<b>40</b>	-
		<hr/>	<hr/>

All amounts relate to continuing activities.

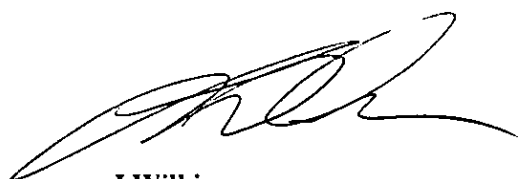
All recognised gains and losses are included in the profit and loss account.

The notes on pages 11 to 18 form part of these financial statements.

**SPORTINGBET (PRODUCT SERVICES) LIMITED****Balance sheet at 31 July 2008**

	Note	2008 £000's	2008 £000's	2007 £000's	2007 £000's
<b>Fixed assets</b>					
Tangible assets	6		651		-
<b>Current assets</b>					
Debtors	7	4,702		-	
		<u>4,702</u>		<u>-</u>	
<b>Creditors: amounts falling due within one year</b>	8	(4,841)		-	
		<u>(4,841)</u>		<u>-</u>	
<b>Net current liabilities</b>			(139)		-
			<u>(139)</u>		<u>-</u>
<b>Net assets</b>			512		-
			<u>512</u>		<u>-</u>
<b>Capital and reserves</b>					
Called up share capital	9		-		-
Profit and loss account	10		512		-
			<u>512</u>		<u>-</u>
<b>Shareholders' funds</b>			512		-
			<u>512</u>		<u>-</u>

The financial statements were approved by the Board and authorised for issue on 26 January 2009.



**J Wilkinson**  
Director

The notes on pages 11 to 18 form part of these financial statements.

## SPORTINGBET (PRODUCT SERVICES) LIMITED

Notes forming part of the financial statements for the year ended 31 July 2008

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### 1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

The principal accounting policies are summarised below. They have all been applied consistently throughout the financial year and the preceding year.

The following principal accounting policies have been applied:

#### *Going concern*

The directors have considered the implications of the potential impact of regulatory uncertainties discussed in note 14. The directors have reviewed the cash flow projections of the Company in light of these uncertainties and have considered the financial resources available to the Company. Accordingly, the directors have a reasonable expectation that the Company has adequate resources to continue operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

#### *Cash flow statement*

The Company is exempt from the requirement under Financial Reporting Standard 1 (Revised) "Cash Flow Statements" to prepare a cash flow statement as its cash flows are consolidated into the financial statements of Sportingbet plc.

#### *Turnover*

Turnover represents amounts from other Group companies for the provision of general product services and is recognised once the service has been provided.

#### *Tangible fixed assets*

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis to write off the cost, less any estimated residual value, of all fixed assets over their expected useful lives. It is calculated at the following rates per annum:

Computer equipment and software	33% on a straight line basis
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#### *Computer software*

Where the Company's expenditure in relation to development of internet activities results in the provision of further services under licensing type agreements, these costs are capitalised and amortised over the shorter of three years or the average period of aggregate licence agreements in existence during the period.

## SPORTINGBET (PRODUCT SERVICES) LIMITED

Notes forming part of the financial statements for the year ended 31 July 2008 (*Continued*)

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### 1 Accounting policies (*continued*)

#### *Foreign currencies*

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

#### *Deferred taxation*

Deferred tax is recognised in respect of all material timing differences that have originated but not reversed by the balance sheet, except for deferred tax assets which are only recognised to the extent that they have either been agreed with the relevant tax authority and/or the Company anticipates making sufficient suitable taxable profits in the future. Deferred tax balances are not discounted.

#### *Pension costs*

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

#### *Share-based payments*

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the profit and loss account over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms of the options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the profit and loss account over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the profit and loss account is charged with the fair value of goods and services received.

#### *Financial liabilities and equity*

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

## SPORTINGBET (PRODUCT SERVICES) LIMITED

Notes forming part of the financial statements for the year ended 31 July 2008 (*Continued*)

### 2 Turnover

The Company has taken the exemption as permitted by SSAP 25 'Segmental Reporting' not to disclose segmental information, on the basis that such information is disclosed in the Group's annual report.

### 3 Operating profit

	Year ended 31 July 2008 £000's	Year ended 31 July 2007 £000's
This has been arrived at after charging:		
Auditors remuneration	20	-
Depreciation	316	-
Share-based payments (see note 11)	472	-
Foreign exchange	5	-
	<u>813</u>	<u>-</u>

The Company has taken the exemption not to disclose non-audit remuneration services on the grounds that this information is disclosed in the Group accounts which are publicly available.

### 4 Employees

Employees' remuneration and related costs (including executive directors) during the year amounted to:

	Year ended 31 July 2008 £000's	Year ended 31 July 2007 £000's
Wages and salaries	1,335	-
Social security costs	123	-
Pension contributions (defined contribution scheme)	52	-
	<u>1,510</u>	<u>-</u>

No director received any emoluments in respect of his services to the Company (2007: £nil).

The average monthly number of full-time persons (including directors) employed by the Company during the year was 25 (2007: nil).

**SPORTINGBET (PRODUCT SERVICES) LIMITED**Notes forming part of the financial statements for the year ended 31 July 2008 (*Continued*)**5 Taxation**

	Year ended 31 July 2008 £000's	Year ended 31 July 2007 £000's
<i>Current tax</i>		
UK corporation tax on profits of the year	-	-

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 July 2008 £000's	Year ended 31 July 2007 £000's
Profit on ordinary activities before tax	40	-
Profit on ordinary activities at the standard rate of corporation tax in the UK of 28% (2007 – 30%)	11	-
Effects of:		
Expenses disallowed	132	-
Movement on share options, including transfers in from other Group companies	(263)	-
Unprovided deferred tax asset acquired on intra-group transfer in of assets	(160)	-
Movement in unprovided deferred tax	400	-
Group relief claimed	(120)	-
Current tax charge for year	-	-



# SPORTINGBET (PRODUCT SERVICES) LIMITED

Notes forming part of the financial statements for the year ended 31 July 2008 (*Continued*)

## 6 Tangible fixed assets

	Computer equipment & software £000's
<i>Cost</i>	
At 1 August 2007	-
Assets transferred from other Group companies	1,083
Additions	419
	<hr/>
At 31 July 2008	<b>1,502</b>
	<hr/>
<i>Depreciation</i>	
At 1 August 2007	-
Assets transferred from other Group companies	535
Charge for the period	316
	<hr/>
At 31 July 2008	<b>851</b>
	<hr/>
<i>Net book value</i>	
At 31 July 2008	<b>651</b>
	<hr/>
At 31 July 2007	-
	<hr/>

## 7 Debtors

	2008 £000's	2007 £000's
Other debtors	346	-
Prepayments and accrued income	3	-
Amounts owed by group undertakings	4,353	-
	<hr/>	<hr/>
	<b>4,702</b>	-
	<hr/>	<hr/>

All amounts shown under debtors fall due for payment within one year.

# SPORTINGBET (PRODUCT SERVICES) LIMITED

Notes forming part of the financial statements for the year ended 31 July 2008 (*Continued*)

8 Creditors: amounts falling due within one year	2007 £000's	2007 £000's
Trade creditors	485	-
Amounts owed to group undertakings	3,866	-
Accruals and deferred expenses	490	-
	<u>4,841</u>	<u>-</u>
9 Share capital	2008 £	2007 £
<i>Authorised</i>		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
<i>Allotted, issued and fully paid</i>		
1 ordinary £1 share	<u>1</u>	<u>1</u>
10 Reserves		Profit and loss account £000's
At 1 August 2007		-
Retained profit for the year		40
Share options charge		472
At 31 July 2008		<u>512</u>

The movement in shareholders' funds of £0.5m (2007: £nil) is wholly represented by the movements shown in reserves above.

# SPORTINGBET (PRODUCT SERVICES) LIMITED

Notes forming part of the financial statements for the year ended 31 July 2008 (Continued)

## 11 Share-based payments

The ultimate parent company operates three equity-settled share-based remuneration schemes for employees of the Company. All employees are eligible to participate in these schemes, the vesting conditions being that the individual still remains in employment at the date of the release of the option and that the 2005 and 2006 share plans satisfy certain performance criteria. The terms of these schemes are discussed in more detail in the Group annual report.

	2008 Weighted average exercise price (p)	2008 No.	2007 Weighted average exercise price (p)	2007 No.
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	-	991,426	-	-
Transferred during the year	-	1,891,440	-	-
Exercised during the year	-	(492,303)	-	-
Lapsed during the year	-	(195,409)	-	-
Outstanding at the end of the year	-	2,195,154	-	-

The exercise price of options outstanding at the end of the year ranged between 0p and 49p (2007: 0p and 0p) and their weighted average contractual life was 471 days (2007: 0 days).

Of the total number of options outstanding at the end of the year, 48,750 (2007: nil) had vested and were exercisable.

The weighted average share price (at the date of exercise) of options exercised during the year was 45.0p (2007: 0p).

The weighted average fair value of each option granted during the year was 45.75p (2007: 0p).

The following information is relevant in the determination of the fair value of options granted during the year under the equity-and cash-settled share-based remuneration schemes operated by the ultimate parent company.

	2008	2007
<b>Equity-settled</b>		
Options pricing model used	Black-Scholes	Black-Scholes
Weighted average share price at grant date (pence)	45.75p	0p
Exercise price (pence)	nil	nil
Weighted average contractual life (days)	471	-
<b>Equity-settled</b>		
Expected volatility	50%	50%
Expected dividend growth rate	2%	2%
Risk-free interest rate	5%	5%

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices over the last three years.

## SPORTINGBET (PRODUCT SERVICES) LIMITED

Notes forming part of the financial statements for the year ended 31 July 2008 (*Continued*)

### 11 Share-based payments (*continued*)

The share-based remuneration expense comprises:

	2008 £'000	2007 £'000
Equity-settled schemes	472	-

### 12 Parent company

The Company's immediate and ultimate parent company is Sportingbet plc, a company incorporated in England and Wales. Copies of the Group accounts prepared by that company are available from 4th floor, 45 Moorfields, London EC2Y 9AE.

### 13 Related party transactions

The Company has taken advantage of the exemption in Financial Reporting Standard 8 "Related Party Transactions" from the requirement to disclose transactions with Group companies on the grounds that consolidated financial statements are prepared by the ultimate parent company.

### 14 Contingent liabilities

From time to time the Group is subject to legal claims and actions. The Group takes legal advice as to the likelihood of success of the claims and actions and no provision or disclosure is made where the Directors feel, based on that advice, that action is unlikely to result in a material loss or a sufficiently reliable estimate of the potential obligation cannot be made.

As part of the ongoing operational risk assessment process adopted by the Group, there is continued monitoring of the legal and regulatory developments and their potential impact on the business. Appropriate advice continues to be taken in respect of these developments.

As noted within the Directors' report there have been certain adverse regulatory developments within Turkey and parts of Europe. In addition, the Group as a whole has been impacted by the enactment of the Unlawful Internet Gambling Enforcement Act in the US, in October 2006. Although the Group has ceased taking bets from US resident customers potentially there remains a residual risk associated with the Group's historic US transactions.

There is uncertainty as to what actions, if any, may occur from the above noted events, and any impact such action may have on the Group. However, the Board does not consider it probable that a material impairment in the carrying value of assets will arise as a result of any potential action.