

4560348

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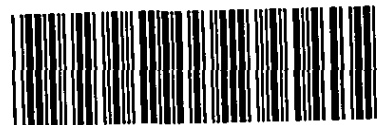
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**extrabet Limited**

**Annual report and financial statements**

**31 May 2012**

TUESDAY



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04/09/2012

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COMPANIES HOUSE

Registered No 4560348

**Directors**

P G Hetherington

T A Howkins

A R MacKay (resigned 31 July 2012)

**Secretary**

B Messer

**Auditors**

PricewaterhouseCoopers LLP

7 More London Riverside

London SE1 2RT

**Bankers**

Lloyds TSB Bank plc

10 Gresham Street

London EC2V 7AE

**Solicitors**

Linklaters

One Silk Street

London EC2Y 8HQ

**Registered Office**

7<sup>th</sup> Floor

Friars House

157-168 Blackfriars Road

London SE1 8EZ

## Directors' Statutory Report

The Directors have pleasure in submitting their report together with the audited financial statements of extrabet Limited (the Company or extrabet) for the year ended 31 May 2012

### Principal activities

The Company ceased accepting new bets on 23 June 2011, with all employees made redundant as of 19 July 2011. The final closure of open client bets and the cessation of trade took place on 19 September 2011.

Prior to closure, the principal activity of the Company was that of running spread betting and fixed odds betting markets on a wide range of sporting events.

The Company is a wholly-owned subsidiary of IG Finance 8 Limited and the ultimate parent company is IG Group Holdings plc (IG Group Holdings plc together with all its subsidiary undertakings, "the Group"). The Company is regulated by the Financial Services Authority and as a licensed bookmaker by the Gambling Commission.

### Results

The Company's loss for the year, after taxation, amounted to £1,389,223 (2011 £10,670,772 profit). The result for the year is discussed under 'Review of business' below.

### Dividends

No dividends were paid during the year (2011 £nil).

### Review of business

On 8 June 2011 the Company reached agreement to sell the majority of the client list relating to the Company's sport spread betting and fixed odds betting business to Spreadex Limited on terms where IG Group Holdings plc will receive semi-annual payments for the next three years, calculated by reference to the revenue that the acquirer generates from clients on the list.

On 23 June 2011 the Company ceased accepting sport spread betting and fixed odds bets from clients. The final closure of open client bets was 19 September 2011. Accordingly, consistent with the requirements of IAS 1, these financial statements have not been prepared on a going concern basis. For more details please refer to note 2 of the financial statements.

Further, as a part of the sale of the majority of the client list the Company

- Sold the associated client debtors, aged less than 90 days, as at 23 June 2011 at their then carrying value to Spreadex Limited
- Transferred client monies to Spreadex Limited or is returning the client monies to former clients of the Company

On 12 July 2011 the Group completed the redundancy consultation process with the employees of extrabet. As a result of this any extrabet employees unable to find a role within the Group were made redundant as of 19 July 2011.

The Company generated net trading revenue of £185,436. This income is offset primarily by the redundancy costs incurred on the closure of the business, resulting in an operating loss of £1,335,168 (2011 £2,377,606 profit).

The Company is now dormant and there will be no activity in the forthcoming year. The Company holds segregated client money which it is in the process of returning to clients.

### Going concern

As disclosed above on 23 June 2011 the Company ceased accepting sport spread betting and fixed odds bets from clients and has subsequent to this date ceased to trade. Accordingly, consistent with the requirements of IAS 1 these financial statements have not been prepared on a going concern basis. This basis of preparation has had a negligible impact on the presentation of the Company's statement of comprehensive income or the statement of financial performance. For more details please refer to note 2 of the financial statements.

Registered No 4560348

## Directors' Statutory Report

### Directors

The Directors of the Company who held office during the year were as follows

P G Hetherington  
T A Howkins  
A R Mackay (resigned 31 July 2012)

No Director had any beneficial interest in the share capital of the Company during the year

The ultimate parent company, IG Group Holdings plc, operates a long term incentive plan for management, including the Directors of extrabet Limited, further described in the financial statements of IG Group Holdings plc

### Risk management

As the Company ceased accepting new bets on 23 June 2011 and is not operating as a going concern, the Company is no longer exposed to market, liquidity and concentration risk. The only risk now considered to be significant to the Company is credit risk.

Credit risk is the risk that a counterparty fails to perform its obligations resulting in financial loss. Credit risk is managed on a Group-wide basis. The principal sources of credit risk to the business are from financial institutions and individual clients.

#### a) Financial institution credit risk

All financial institutions with whom the Group has a relationship are subject to a credit review. Exposure limits are set and approved by the Risk Committee. The Group also maintains multiple brokers for each asset class. Where possible, the Group negotiates for our funds to receive client money protection which can reduce direct credit exposure.

The Group is responsible, under various regulatory regimes, for the stewardship of client monies. These responsibilities include the appointment and periodic review of institutions where the Group deposit client money. Group policy is that all financial institutions holding client money must have a minimum Standard and Poor's short-term and long-term rating of A-2 and A- respectively. In some operating jurisdictions it can be problematic to find a counterparty satisfying these requirements and in these cases the Group seeks to use the best available counterparty.

#### b) Client credit risk

Client credit risk principally arose when a client's total funds deposited with the Group were insufficient to cover any trading losses incurred. Further to the cessation of trade, client credit risk arises from the collectability of outstanding debts.

### Employees

All employees were made redundant on 19 July 2011, so no disclosure is presented with regard to employees in this Directors report. Disclosure in respect of staff costs incurred in the year, including termination payments made to employees is included in Note 7 to the financial statements.

### Donations

The Company made no political donations (2011 £nil) and charitable donations of £nil in relation to Gambling support charities (2011 £26,288).

Registered No 4560348

## Directors' Statutory Report

### Subsequent events

On 17 July 2012, Andrew MacKay, Director of Corporate Strategy, announced his decision to step down from the Board with effect from 31 July 2012

### Independent auditors

A resolution to re-appoint the Group's auditors PricewaterhouseCoopers LLP will be put to shareholders at the Company's next forthcoming AGM

### Insurance and indemnities

The Company purchases appropriate liability insurance for all Directors and officers

### Directors' statement as to disclosure of information to auditors

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware. Each Director has taken all the steps that he is obliged to take as a Director in order to make him aware of any relevant audit information and to establish that the auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

By order of the Board



**P G Hetherington**

Director

30 August 2012

## Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under company law the Directors must not approve the financial statements 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 Company for that period. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements. In preparing these financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB)
- 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 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 financial statements 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.

By order of the Board



**P G Hetherington**  
Director

30 August 2012

# **Independent Auditor's Report**

**to the members of extrabet Limited**

We have audited the financial statements of extrabet Limited for the year ended 31 May 2012 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement 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.

## **Respective responsibilities of Directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements 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 Chapter 3 of Part 16 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 by our prior consent in writing.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the 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 financial statements. In addition, we read all the financial and non-financial information in the Directors' Statutory Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 May 2012 and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- 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' Statutory Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

## **Emphasis of Matter - Going Concern**

Without qualifying our opinion we draw attention to the Directors' Report and note 2 to the financial statements, which explain that the Company has ceased trading and consequently the going concern basis for these financial statements is no longer appropriate. These financial statements have therefore been prepared on a break-up value basis. Adjustments have been made to reduce the carrying value of the assets to their estimated realisable values and provision made for any further liabilities arising as a result.

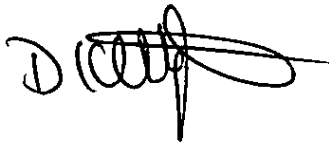
# **Independent Auditor's Report**

**to the members of extrabet Limited**

## **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements 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



Darren Ketteringham (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

30 August 2012



## Statement of Comprehensive Income

for the year ended 31 May 2012

	Notes	2012 £	2011 £
Trading revenue		199,025	7,836,715
Interest income on segregated client funds	3	1,383	8,979
<b>Revenue</b>		<b>200,408</b>	<b>7,845,694</b>
Introducing broker commissions		(13,589)	(78,372)
Betting duty		(48,232)	(1,021,645)
<b>Net operating income</b>		<b>138,587</b>	<b>6,745,677</b>
<b>Analysed as</b>			
<b>Net trading revenue</b>	3	<b>-185,436</b>	<b>-7,758,343</b>
<b>Other net operating expense</b>		<b>(46,849)</b>	<b>(1,012,666)</b>
Administrative expenses		(1,473,755)	(4,368,071)
<b>Operating (loss)/ profit</b>	4	<b>(1,335,168)</b>	<b>2,377,606</b>
Gain on waiver of loan note	8	-	8,369,825
Finance costs	9	(401)	(22,081)
<b>(Loss) /profit before taxation</b>		<b>(1,335,569)</b>	<b>10,725,350</b>
Tax expense	10	(53,654)	(54,578)
<b>(Loss) /profit for the year</b>		<b>(1,389,223)</b>	<b>10,670,772</b>

The Company has no items of other comprehensive income and therefore a single statement of comprehensive income has been presented

The notes on pages 15 to 38 are an integral part of these financial statements

## Statement of Financial Position

at 31 May 2012

	Notes	2012 £	2011 £
<b>Current assets</b>			
Trade receivables	14	26,050	372,747
Prepayments and other receivables	15	416,882	1,643,992
Income tax receivable		1,174,592	707,907
Deferred tax asset	10	-	13,872
Cash and cash equivalents	16	38,545	507,323
<b>TOTAL ASSETS</b>		<b>1,656,069</b>	<b>3,245,841</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	17	-	172,275
Other payables	18	140,952	169,226
<b>Total liabilities</b>		<b>140,952</b>	<b>341,501</b>
<b>Capital and reserves</b>			
Equity share capital	19	600,001	600,001
Retained earnings	20	17,068,399	18,457,622
Capital reserve	20	(69,423)	(69,423)
Pooling of interest reserve	20	(16,083,860)	(16,083,860)
<b>Total equity</b>		<b>1,515,117</b>	<b>2,904,340</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,656,069</b>	<b>3,245,841</b>

The notes on pages 15 to 38 are an integral part of these financial statements

Approved by the Board of Directors and signed on their behalf by



**P G Hetherington**

Director

30 August 2012

Company registered number 4560348

## Statement of Changes in Shareholders' Equity

for the year ended 31 May 2012

	<i>Equity share capital £</i>	<i>Retained earnings £</i>	<i>Capital reserve £</i>	<i>Pooling of interest reserve £</i>	<i>Total equity £</i>
<b>At 1 June 2010</b>	600,001	7,786,850	(72,238)	(16,083,860)	(7,769,247)
Profit for the year	-	10,670,772	-	-	10,670,772
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	10,670,772	-	-	10,670,772
Equity-settled employee share-based payments	-	-	2,815	-	2,815
Movement in' equity	-	10,670,772	2,815	-	10,673,587
<b>At 31 May 2011</b>	600,001	18,457,622	(69,423)	(16,083,860)	2,904,340
Loss for the year	-	(1,389,223)	-	-	(1,389,223)
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive loss for the year	-	(1,389,223)	-	-	(1,389,223)
Equity-settled employee share-based payments	-	-	-	-	-
Movement in' equity	-	(1,389,223)	-	-	(1,389,223)
<b>At 31 May 2012</b>	600,001	17,068,399	(69,423)	(16,083,860)	1,515,117

The notes on pages 15 to 38 are an integral part of these financial statements

## Cash Flow Statement

for the year ended 31 May 2012

		2012	2011
		£	£
<b>Operating activities</b>	<b>Notes</b>		
Operating (loss)/profit		(1,335,168)	2,377,606
<i>Adjustments to reconcile operating (loss)/profit to net cash flow from operating activities</i>			
Net interest income on segregated client funds	3	(1,383)	(8,979)
Depreciation of property, plant and equipment	4, 12	-	44,781
Amortisation of intangible assets	4, 13	-	38,713
Share-based payments credit	21	-	2,815
Non-cash foreign exchange gains in operating profit	4	1,769	(5,424)
Impairment of trade receivables		(34,928)	(108,063)
Decrease/ (increase) in trade and other receivables		1,606,966	(2,184,407)
Decrease in trade and other payables		(676,743)	(191,985)
Cash used in operations		(439,487)	(34,943)
Income taxes paid		(30,273)	(465,000)
Interest received on segregated client funds	3	1,383	8,979
<b>Net cash used in operating activities</b>		<b>(468,377)</b>	<b>(490,964)</b>
<b>Investing activities</b>			
Interest received		-	-
Purchase of property, plant and equipment	12	-	-
Payments to acquire intangible assets	13	-	(14,028)
<b>Net cash used in investing activities</b>		<b>-</b>	<b>(14,028)</b>
<b>Financing activities</b>			
Interest paid	9	(401)	(22,081)
Cash settlement of intercompany payables		-	(4,439,976)
Cash settlement of intercompany receivables		-	5,469,774
<b>Net cash (used in)/ generated from financing activities</b>		<b>(401)</b>	<b>1,007,717</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>		<b>(468,778)</b>	<b>502,725</b>
Exchange losses on cash and cash equivalents		-	(681)
Cash and cash equivalents at the beginning of the year		507,323	5,279
<b>Net cash and cash equivalents at the end of year</b>	<b>16</b>	<b>38,545</b>	<b>507,323</b>

Non-cash transactions in the prior year include the gain on the waiver of a loan note with a related party, disclosed in note 8

The notes on pages 15 to 38 are an integral part of these financial statements

## Notes to the Financial Statements

at 31 May 2012

### 1. Authorisation of financial statements and statement of compliance with IFRS

The financial statements of extrabet Limited for the year ended 31 May 2012 were authorised for issue by the Board of Directors on 30 August 2012 and the Statement of Financial Position signed on the Board's behalf by P G Hetherington extrabet Limited is incorporated and domiciled in England and Wales

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted by the Company are set out in note 2.

### 2. Accounting policies

#### Basis of preparation

The accounting policies which follow have been consistently applied in preparing the financial statements for the year ended 31 May 2012. The financial statements are presented in Sterling.

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the reporting date and the amounts reported for revenues and expenses during the year. The nature of estimates means that actual outcomes could differ from those estimates.

#### Going concern

As disclosed in the Directors' statutory report, on 8 June 2011 the Company reached agreement to sell the majority of the client list relating to extrabet's sport spread betting and fixed odds betting business. The Company subsequently ceased accepting new sport spread betting and fixed odds bets from clients and has as a result ceased to trade. Accordingly, consistent with the requirements of IAS 1, these financial statements have not been prepared on a going concern basis and all assets and liabilities have been stated at the lower of their carrying value and their expected recoverable amount. The sale of the client list and the adjusted basis of preparation had an immaterial impact on the presentation of either of the Company's statement of comprehensive income or the statement of financial performance in the prior year as:

- The divested client asset (as internally generated) was not previously recognised in the statement of financial position of the Company. Further, any economic benefit generated from the sale of the client list is not attributable to the Company, rather IG Group Holdings plc.
- The majority of client debtors aged less than 90 days as at 23 June 2011 were sold at their carrying value to Spreadex Limited.
- All the Company's property plant and equipment and software and licences were depreciated or amortised to nil net book value in the year-ended 31 May 2011.
- An onerous lease charge for the vacant office premises following closure of the business has been recognised in the fellow subsidiary Company that leases the office premises. No recharge has been made to the Company.
- The carrying values of all other of the Company's assets and liabilities at 31 May 2012 are considered to be materially equivalent to recoverable amount.

## Notes to the Financial Statements

at 31 May 2012

### 2. Accounting policies (continued)

#### Parent company and Group financial statements

The parent company throughout the year was IG Finance 8 Limited which is a wholly owned subsidiary of IG Group Limited. The ultimate parent company is IG Group Holdings plc.

The financial statements of IG Group Holdings plc and its subsidiary companies, which include the results of extrabet Limited, may be obtained from Cannon Bridge House, 25 Dowgate Hill, London EC4R 2YA. The Group financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as they apply to the financial statements of the group for the year ended 31 May 2012 applied in accordance with the provisions of the Companies Act 2006.

#### Common control transactions

On 23 March 2009 the Company acquired the sport spread betting and binary betting business of IG Index Limited, its then subsidiary for a consideration of £17 million. The transaction was not for the share capital of IG Index Limited, rather the sport spread betting and binary betting business and was undertaken as a part of the IG Group's wider reorganisation. The ultimate UK parent undertaking of both extrabet Limited and IG Index Limited was before and remains after the group reconstruction, IG Group Holdings plc.

The transaction outlined above is outside of the scope of IFRS 3, Business Combinations, as the combining entities are ultimately controlled by the same party (IG Group Holdings plc) both before and after the transaction, and as such control was not transitory. In accordance with IAS 8 the directors have developed an appropriate accounting policy for common control transactions. The Company's financial statements include the acquired business in accordance with the 'pooling of interests method' as set out below.

- The acquired businesses results are included in the financial statements of the Company as if the transaction occurred on the first day of the comparative period.
- The Company does not restate assets and liabilities to their fair values. Instead, the Company incorporates the assets and liabilities at the amounts recorded in the books of the acquired business adjusted only to achieve harmonisation of accounting policies.
- In order to restate the statement of financial position at 31 May 2008, management made a number of assumptions due to the restrictions on data, in order to best reflect the recorded asset and liability amounts that were acquired.
- No goodwill arises, as the excess of the amount paid over the carrying value of the assets is effectively internally generated goodwill. As such the differences arising on acquisition are included in reserves.

#### Foreign currencies

The Company's most significant functional currency is Sterling. Transactions in foreign currencies are translated into the functional currency at the rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the statement of financial position date. Non-monetary assets and liabilities carried at fair value that are dominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on translation are taken to the income statement.

## Notes to the Financial Statements

at 31 May 2012

### 2. Accounting policies (continued)

#### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value based upon estimated useful lives. Estimated residual value and useful lives are reviewed on an annual basis and residual values are based on prices prevailing at the year-end date. Depreciation is charged on a straight line basis over the expected useful lives as follows:

- Computer and other equipment - over 2, 3 or 5 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on derecognition of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is included in the income statement in the period of de-recognition.

#### Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Expenditure on internally developed intangible assets, excluding development costs, is taken to the income statement in the year in which it is incurred. Development expenditure is recognised as an intangible asset only after all the following criteria are met:

- the project's technical feasibility and commercial viability can be demonstrated,
- the availability of adequate technical and financial resources and an intention to complete the project have been confirmed, and
- the correlation between development costs and future revenue has been established.

Following initial recognition, the historical cost model is applied, with intangible assets being carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets with a finite life are amortised on a straight line basis over their expected useful lives, as follows:

- Software and licences - over the contract term of up to 5 years

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. In addition, the carrying value of capitalised development expenditure is reviewed for impairment annually before being brought into use.

## Notes to the Financial Statements

at 31 May 2012

### 2. Accounting policies (continued)

#### **Impairment of assets**

At least annually, or when annual impairment testing is required, the directors review the carrying amounts of the Company's tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less selling costs and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate. This rate reflects current market assessments of the time value of money as well as the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

An assessment is made at each statement of financial position date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### **Financial instruments**

The Company determines the classification of its financial instruments at initial recognition in accordance with the categories outlined below and re-evaluates this designation at each financial year end. When financial instruments are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

#### ***Financial assets and financial liabilities at fair value through profit or loss***

Financial assets and financial liabilities classified as held for trading, or designated as such on inception, are included in this category and relate to trade receivables and trade payables as shown in the statement of financial position. Financial instruments are classified as held for trading if they are expected to settle in the short term. The Company uses derivative financial instruments, in order to hedge exposures resulting from derivatives with clients, which are also classified as held for trading unless they are designated as hedging instruments.

All financial instruments at fair value through the profit and loss are carried in the statement of financial position at fair value with gains or losses recognised in the income statement.

#### ***Determination of fair value***

Bets and other derivative financial instruments are stated at fair value determined by reference to third party market values (bid prices for long positions and offer prices for short positions).

For all other derivative financial instruments where there is no underlying active market, the fair value is determined using an appropriate valuation technique as determined by the Company at the year end.



## Notes to the Financial Statements

at 31 May 2012

### 2. Accounting policies (continued)

#### De-recognition of financial assets and liabilities

A financial asset or liability is generally de-recognised when the contract that gives rise to it is settled, sold, cancelled or expires

#### Financial assets

A financial asset is derecognised where the rights to receive cash flows from the asset have expired, the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement, or the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay

#### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss

#### Trade receivables and trade payables

Assets or liabilities resulting from profit or losses on open positions are carried at fair value. Amounts due from/to clients and brokers are netted against other assets and liabilities with the same counterparty where a legally enforceable netting agreement is in place and where it is anticipated that assets and liabilities will be netted on settlement

Trade receivables represent balances with counterparties and clients where the combination of cash held on account and the valuation of financial derivative open positions result in an amount due to the Company. A provision for impairment is established where there is objective evidence of non-collectability. Reference is made to an aged profile of debt and the provision is subject to management review

Trade payables represent balances with counterparties and clients where the combination of cash held on account and the valuation of financial derivative open positions results in an amount payable by the Company

#### Prepayments and other receivables

Prepayments and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as fair value through profit and loss. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the receivables are de-recognised or impaired, as well as through the amortisation process. A provision for impairment is established where there is objective evidence of non-collectability

## Notes to the Financial Statements

at 31 May 2012

### 2. Accounting policies (continued)

#### Cash and cash equivalents

Cash comprises cash on hand and demand deposits which may be accessed without penalty. Cash equivalents comprise short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the purposes of the consolidated cash flow statement, net cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

The Company holds money on behalf of clients in accordance with the client money rules of the UK Financial Services Authority (FSA). Such monies are classified as either 'cash and cash equivalents' or 'segregated client funds' in accordance with the relevant regulatory requirements. Segregated client funds comprise retail client funds held in segregated client money accounts or money market facilities. Segregated client money accounts hold statutory trust status restricting the Company's ability to control the monies and accordingly such amounts and are not held on the Company's statement of financial position.

The amount of segregated client funds held at year-end is disclosed in note 16 to the financial statements. The return received on managing segregated client funds is included within net operating income.

#### Taxation

The income tax expense represents the sum of tax currently payable and movements in deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year-end date.

Deferred tax is generally accounted for on all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences may be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the statement of financial position date. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### Other payables

Non trading financial liabilities are recognised initially at fair value and carried at amortised cost using the effective interest rate method if the time value of money is significant.

## Notes to the Financial Statements

at 31 May 2012

### 2. Accounting policies (continued)

#### Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Where material, provisions are discounted and recognised at the present value of expenditures expected to settle the obligation with the unwind of the discount recognised as an interest expense.

#### Equity shares

Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs. Equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

#### Revenue recognition

Trading revenue represents gains and losses arising on client trading activity primarily in sports spread bets and the transactions undertaken to hedge the risk associated with client bets. Open client and hedging positions are carried at fair market value and gains and losses arising on this valuation are recognised in revenue as well as gains and losses realised on positions that have closed.

Revenue is recognised when it is probable that economic benefits associated with the transaction will flow to the Company and the revenue can be reliably measured.

Trading revenue is reported gross of introductory broker commission as these amounts are directly linked to trading revenue. Introductory broker commission, along with betting duties paid are disclosed as an expense in arriving at net operating income.

Finance revenue and interest income on segregated client funds is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. The effective interest rate is the rate which exactly discounts estimated future cash receipts over the expected life of the financial asset to that asset's net carrying amount. Interest income on segregated client funds is disclosed within revenue and therefore operating profit as this is consistent with the nature of the Company's operations.

Net trading revenue, disclosed on the face of the income statement and in the notes to the financial statements, represents trading revenue and has been disclosed net of introductory broker commission as this is consistent with the management information received by the Chief Operating Decision Maker.

Dividends receivable are recognised when the shareholder's right to receive the payment is established.

#### Operating profit

Operating profit is the results of the principal activities of the Company after charging depreciation of property, plant and equipment, amortisation of intangible assets, impairment of trade receivables, foreign exchange differences, intercompany recharge of staff costs and other administrative expenses.

#### Finance costs and interest expense on segregated client funds

The interest cost recognised in the income statement is accrued on a time basis by reference to the principal amount charged at the effective interest rate applicable. The effective interest rate is the rate that exactly discounts the future expected cash flows to the carrying amount of the liability. Issue costs are included in the determination of the effective interest rates.

Interest expense on segregated client funds is disclosed within operating profit as this is consistent with the nature of the Company's operations.

#### Retirement benefit costs

The Company operates a defined contribution scheme. Contributions are charged in the income statement as and when they become payable according to the rules of scheme.

## Notes to the Financial Statements

at 31 May 2012

### 2. Accounting policies (continued)

#### Share-based payments

The ultimate parent company, IG Group Holdings plc, operates three employee share plans: a share incentive plan (SIP), a value-sharing plan (VSP) and long-term incentive plan (LTIPs), all of which are equity-settled. The cost of these awards is measured at fair value based on the market price of IG Group Holdings plc's shares at the date of the grant and are recognised as an expense in the income statement on a straight line basis over the vesting period based on estimated number of shares that will eventually vest.

At each statement of financial position date before vesting, the cumulative expense is calculated representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions determining the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous statement of financial position date is recognised in the income statement as part of administrative expenses, with a corresponding entry in equity.

#### Changes in accounting policies

The accounting policies adopted in the preparation of financial statements are consistent with those followed in the preparation of the Group's Annual Report for the year ended 31 May 2012.

#### New and amended standards adopted by the Company

The Company has adopted the following new or amended standards as of 1 June 2011:

- Amendment to IFRS 7 (revised) "Financial Instruments: Disclosures". The amended standard introduces additional disclosures in relation to the transfers of financial assets.
- IAS 24 (revised) "Related party disclosures", issued in November 2009 (effective 1 January 2011). This standard clarifies the definition of a related party and includes an explicit requirement to disclose commitments involving related parties.

The following new standards and interpretations are also effective for accounting periods beginning 1 June 2011 but have not had a material impact on the presentation of, nor the results or financial position of the Company:

- IFRIC 14 "Prepayments of a Minimum Funding requirement (effective January 2011)".
- IFRIC 19 "Extinguishing financial liabilities with equity instruments".

**Other new standards, amendments and interpretations, including those listed below, have been issued but are not effective for accounting periods beginning 1 June 2011 and have not been early adopted by the Company:**

- IFRS 9 "Financial Instruments", issued in November 2009, amended 2010. This standard is the first step in the process to replace IAS 39, "Financial Instruments, recognition and measurement". IFRS 9 introduces new requirements for classifying and measuring financial assets. The standard is not applicable until 1 January 2015 and has not yet been endorsed by the EU. The Company has yet to assess the impact of IFRS 9.
- IFRS 13 "Fair value measurement" (effective 1 January 2013).
- IFRS 10 "Consolidated Financial Statements" (effective 1 January 2013).
- IFRS 11 "Joint Arrangements" (effective 1 January 2013).
- IFRS 12 "Disclosure of Interests in Other Entities" (effective 1 January 2013).
- IAS 19 (revised 2011) "Employee benefits" (effective 1 January 2013).
- Amendment to IFRS 7 "Financial Instruments: Disclosures" (effective 1 July 2013).
- IAS 32 "Financial Instruments: Presentation" (effective 1 January 2014).

## Notes to the Financial Statements

at 31 May 2012

### 2. Accounting policies (continued)

- Amendment to IAS 12, "Income taxes" on deferred tax assets or liabilities on investment property (effective 1 January 2012)
- Amendment to IAS 1 "Presentation of financial statements" on OCI (effective 1 July 2012)
- IAS 28 "Investment in Associates and Joint Ventures" (effective 1 January 2013)
- Amendment to IFRS 7 "Disclosures - Offsetting Financial Assets and Financial Liabilities" (effective 1 January 2013)

The new standards and amendments listed above are not expected to have a material impact on the Company

#### Critical accounting estimates and judgements

The Company ceased accepting new bets on 23 June 2011 and as a result, consistent with the requirements of IAS 1, these financial statements have not been prepared on a going concern basis and all assets and liabilities have been stated at the lower of their carrying value and their expected recoverable amount

In the Directors' opinion there are no critical accounting estimates or judgements that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year

The accounting estimates or judgements that have the most significant impact on the financial statements are the impairment of trade receivables and associated disclosures (see note 26)

### 3. Revenue

Net trading revenue represents profit and losses on the running of a fixed odds betting market and Sport spread betting and is presented net of introducing broker commission as this is consistent with the management information received by the Chief Operating Decision Maker. Revenue from external customers includes interest income on segregated client funds and is analysed as follows

	2012	2011
	£	£
<b>Net trading revenue</b>		
Sport spread betting	51,268	4,841,670
Sport binaries	53,617	1,690,026
Sport betting exchanges	80,551	1,226,647
<b>Total trading revenue</b>	<b>185,436</b>	<b>7,758,343</b>
Interest income on segregated client funds	1,383	8,979
<b>Revenue from external customers</b>	<b>186,819</b>	<b>7,767,322</b>

## Notes to the Financial Statements

at 31 May 2012

### 4. Operating profit

	2012	2011
	£	£
<b>This is stated after charging/(crediting)</b>		
Depreciation of property, plant and equipment	-	44,781
Amortisation of intangible assets	-	38,713
Foreign exchange differences	(1,769)	(5,424)
Advertising and marketing	60,653	732,698

All of the above except foreign exchange differences are included in the administrative expenses of the income statement. Foreign exchange differences are included in revenue.

### 5. Auditors' remuneration

Audit fees in relation to audit of financial statements of the Company amounting to £5,250 (2011: £12,750) are borne by a fellow Group undertaking.

The Company paid non-audit fees to PricewaterhouseCoopers LLP of £24,567 (2011: nil) in relation to employment law advice and sales taxes, incurred on the winding up of the Company.

## Notes to the Financial Statements

at 31 May 2012

### 6. Directors' emoluments

The compensation of each of T A Howkins, P G Hetherington and A R MacKay is paid by a fellow Group company. It is not possible to make a reasonable allocation of compensation expense for these Directors to the other subsidiaries in the Group that benefit from the services of these Directors. Accordingly Directors' compensation expenses are not recharged to the Company. The compensation of these Directors is disclosed in the Directors' Remuneration Report within the Annual Report of IG Group Holdings plc for the year ended 31 May 2012.

The Directors' emoluments disclosed below therefore represent the amounts paid to Directors for services to the Group. Only a proportion of these relate to services to extrabet Limited.

	2012	2011
	£	£
Emoluments	2,900,539	1,530,932
Pension contributions	141,278	295,843
Share-based payments	1,535,670	1,495,289
	<u>2012</u>	<u>2011</u>
	No	No
Members of money purchase pension scheme	3	4
	<u>2012</u>	<u>2011</u>
	£	£
Highest paid director		
Emoluments	1,221,707	459,894
Pension contributions	62,100	58,333

Included in the Directors' emoluments for the year ending 31 May 2011 is £1,365,000 paid as compensation for loss of office to S Clutton who resigned from the Board on 2 August 2010.

## Notes to the Financial Statements

at 31 May 2012

### 7. Staff costs

On 12 July 2011 the Group completed the redundancy consultation process with the employees of extrabet. As a result of this any extrabet employees unable to find a role within the Group were made redundant as of 19 July 2011. The staff costs incurred in the year include termination payments made to employees.

The average monthly number of employees during the prior year was 59.

The staff costs for the year were as follows:

	2012	2011
	£	£
Wages and salaries	860,484	1,983,792
Social security costs	72,833	215,656
Other pension costs	14,062	181,343
	<u>947,379</u>	<u>2,380,791</u>

Wages and salaries include the following amounts in respect of performance related bonuses, excluding national insurance and share-based payments charged to the income statement:

	2012	2011
	£	£
Performance related bonuses	-	54,250
Equity settled share-based payments	-	2,815
	<u>-</u>	<u>57,065</u>



## Notes to the Financial Statements

at 31 May 2012

### 8. Finance revenue

	2012	2011
	£	£
Gain on waiver of loan notes	-	8,369,825
	<u>-</u>	<u>8,369,825</u>

In the year-ended 31 May 2011 the Company made a gain of £8,369,825 following the waiver of a loan note with Market Data Limited, a fellow subsidiary of IG Group Holdings plc

### 9. Finance costs

	2012	2011
	£	£
Other interest payable	401	22,081
	<u>401</u>	<u>22,081</u>

### 10. Taxation

#### (a) Tax on loss / (profit) on ordinary activities

##### Tax charged in the income statement

	2012	2011
	£	£
<b>Current income tax</b>		
UK Corporation tax	(348,122)	492,940
Adjustment in respect of prior years	<u>387,904</u>	<u>(426,479)</u>
<b>Total current income tax</b>	<b>39,782</b>	<b>66,461</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	5,820	(11,883)
Adjustment in respect of prior years	<u>8,052</u>	<u>-</u>
<b>Tax expense in the income statement</b>	<b><u>53,654</u></b>	<b><u>54,578</u></b>

## Notes to the Financial Statements

at 31 May 2012

### 10. Taxation (continued)

#### (b) Reconciliation of the total tax charge

The tax expense in the income statement for the year is different to the standard rate of corporation tax in the UK of 25.67% (2011: 27.67%). The differences are reconciled below

	2012	2011
	£	£
Accounting (loss)/ profit before taxation	(1,335,569)	10,725,350
Accounting (loss) / profit multiplied by the UK standard rate of corporation tax of 25.67% (2011: 27.67%)	(342,841)	2,967,347
Effects of		
Non-taxable gain on waiver of loan note	-	(2,315,931)
Expenses not deductible for tax purposes	539	(170,359)
Adjustment in respect of prior years	395,956	(426,479)
Total tax expense reported in the income statement	53,654	54,578

The effective corporation tax rate is 4.02% (2011: 0.51%)

#### (c) Deferred income tax assets:

The deferred income tax assets included in the statement of financial position are as follows

	2012	2011
	£	£
Depreciation in excess of capital allowances	-	13,872
Share-based payments	-	-
Bad debt provision	-	-
	-	13,872

## Notes to the Financial Statements

at 31 May 2012

### 10. Taxation (continued)

#### (c) Deferred income tax assets (continued)

The gross movement in the deferred income tax included in the statement of financial position is as follows

	2012	2011
	£	£
At the beginning of the year	13,872	1,989
Income statement (charge)/ credit	(13,872)	11,883
	<u>-</u>	<u>13,872</u>

#### (d) Deferred income tax - income statement charge

	2012	2011
	£	£
The deferred income tax (charge) / credit included in the income statement is made up as follows		
Decelerated / (accelerated) capital allowances	(13,872)	17,106
Bad debt provision	-	(25,449)
Share-based payments	-	20,226
	<u>(13,872)</u>	<u>11,883</u>

The deferred tax asset recognised in equity relates to a deductible temporary excess of the estimated future taxation benefit and the amounts charged to date

### 11. Dividends

No dividends were paid in the current or prior year

## Notes to the Financial Statements

### at 31 May 2012

#### 12. Property, plant and equipment

	<i>Computer, and other equipment £</i>
<b>Cost</b>	
At 1 June 2010	45,137
Foreign currency adjustments	-
Additions	898
Written off	-
At 31 May 2011	46,035
Foreign currency adjustments	-
Additions	-
Written off	-
At 31 May 2012	46,035
<b>Depreciation:</b>	
At 1 June 2010	1,254
Foreign currency adjustments	-
Provided during the year	44,781
Written off	-
At 31 May 2011	46,035
Foreign currency adjustments	-
Provided during the year	-
Written off	-
At 31 May 2012	46,035
<b>Net book value:</b>	
At 31 May 2012	-
At 31 May 2011	-
At 1 June 2010	43,883

## Notes to the Financial Statements

### at 31 May 2012

#### 13. Intangible assets

	<i>Software and licences £</i>
<b>Cost</b>	
At 1 June 2010	26,138
Foreign currency adjustments	-
Additions	14,027
Written off	-
At 31 May 2011	40,165
Foreign currency adjustments	-
Additions	-
Written off	-
At 31 May 2012	40,165
<b>Depreciation*</b>	
At 1 June 2010	1,452
Foreign currency adjustments	-
Provided during the year	38,713
Written off	-
At 31 May 2011	40,165
Foreign currency adjustments	-
Provided during the year	-
Written off	-
At 31 May 2012	40,165
<b>Net book value</b>	
At 31 May 2012	-
At 31 May 2011	-
At 1 June 2010	24,686

## Notes to the Financial Statements

at 31 May 2012

### 14. Trade receivables

	2012	2011
	£	£
Amounts due from brokers	-	206,699
Amounts due from clients	26,050	166,048
	<u>26,050</u>	<u>372,747</u>

Following the closure of the business all amounts due from brokers have been received by the Company

As a part of the sale of the majority of the client list the associated client debtors, aged less than 90 days, as at 23 June 2011 were sold at their then carrying value

The remaining amounts due from clients are held at the amount deemed recoverable

### 15. Prepayments and other receivables

	2012	2011
	£	£
Other debtors	-	5,067
Prepayments	398	78,518
Amounts due from Group companies	416,484	1,560,407
	<u>416,882</u>	<u>1,643,992</u>

The amounts due from other Group companies are interest free. There is no security over any inter-company balances and all amounts are repayable on demand

### 16. Cash and cash equivalents

	2012	2011
	£	£
Gross cash and cash equivalents <sup>(1)</sup>	322,519	2,232,948
Less Segregated client funds <sup>(2)</sup>	(283,974)	(1,725,625)
Own cash	<u>38,545</u>	<u>507,323</u>

<sup>(1)</sup> Gross cash and cash equivalents includes the Company's own cash as well as all client monies held including segregated client funds

<sup>(2)</sup> Segregated client funds comprise retail client funds held in segregated client money accounts or money market facilities established under the UK's Financial Services Authority (FSA) 'CASS' rules. Such monies are not included in the Company's statement of financial position

Following the sale of the majority of the client list and subsequent closure of the business, the Company has either transferred (to Spreadex Limited), or is in the process of returning segregated, client funds to clients

## Notes to the Financial Statements

at 31 May 2012

### 17. Trade payables

	2012	2011
	£	£
Other amounts due to clients <sup>(1)</sup>	-	172,275
	<u>-</u>	<u>172,275</u>

<sup>(1)</sup> Other amounts due to clients represent balances that will be transferred from the Company's own cash into segregated client funds on the immediately following working day in accordance with the UK's Financial Services 'CASS' rules

### 18. Other payables

	2012	2011
	£	£
Accruals and deferred income	140,952	112,278
Other taxes and social security	-	56,948
	<u>140,952</u>	<u>169,226</u>

### 19. Equity share capital

	2012	2011
	£	£
Allotted, called up and fully paid		
600,001 ordinary shares of £1 each	<u>600,001</u>	<u>600,001</u>

## Notes to the Financial Statements

at 31 May 2012

### 20. Reserves

#### Retained earnings

Retained earnings include a credit for the excess of the tax deduction for employee share-based payments over the amounts charged to the income statement

#### Capital reserve

Capital reserve represents the equity contribution by the ultimate parent company, IG Group Holdings plc, for the equity-settled share-based payments made by IG Group Holdings plc to employees of the Company

#### Pooling of interest reserve

Amounts recorded in the pooling of interest reserve relate to the acquisition of the sports and binary betting business of IG Index Limited. Refer to the 'common control transactions' accounting policy in note 2 for more detail

### 21. Employee share plans

There was no charge recognised in respect of share-based payments made to employees of the Company in the year

In the prior year, a credit of £2,815 was recognised in the income statement reflecting the net recovery of costs relating to employees that left the Company in the year for which provision was made in prior years in IG Index Limited (a fellow subsidiary company). Such provision was made prior to the acquisition of the sport spread betting and binary betting business of IG Index Limited in the year ended 31 May 2009

### 22. Contingent liabilities

At 31 May 2012, the Company had no contingent liabilities (2011: £nil)

### 23. Transactions with Directors

The Directors of extrabet Limited held shares of the ultimate parent company, IG Group Holdings plc, as disclosed in the Directors' Remuneration report in the Annual Report of IG Group Holdings plc. The Company had no other transactions with its Directors other than in relation to the management of the Company



## Notes to the Financial Statements

at 31 May 2012

### 24. Related party transactions

The directors are considered to be the key management personnel of the Group in accordance with IAS 24. The total compensation for key management personnel was as follows

	2012	2011
	£	£
Salaries and other short-term employee benefits	2,900,539	1,530,932
Post-employment benefits	141,278	295,843
Share-based payments	1,535,670	1,495,289
	<u>4,577,487</u>	<u>3,322,064</u>

Compensation for key management personnel represents amounts paid to Directors for services to the Group. Only a portion of these relate to services to extrabet Limited.

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at 31 May with other related parties, are as follows

	Amounts owed by related party	Amounts owed to related party
Related party	£	£
Fellow Group companies		
2012	416,484	-
2011	1,560,407	-

#### **Terms and conditions of transactions with related parties**

Outstanding balances with entities are unsecured and interest free and placed on inter-company accounts with no specified credit period and are repayable on demand. During the year ended 31 May 2012, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2011: £nil).

During the year ended 31 May 2011 a gain of £8,369,825 was realised by the Company following the waiver of a loan note with a fellow subsidiary of IG Group Holdings plc, Market Data Limited.

## Notes to the Financial Statements

at 31 May 2012

### 25. Financial Instruments

#### Accounting classifications and fair values

The table below sets out the classification of each class of financial assets and liabilities and their fair values (excluding accrued interest). The Group considers the carrying value of all financial assets and liabilities to be a reasonable approximation of fair value and represents the Group's maximum credit exposure without taking account of any collateral held or other credit enhancements.

'Cash and cash equivalents' represent cash held on demand and on deposit with financial institutions.

'Trade receivables - due from brokers' represent balances with brokers where the combination of cash held on account (disclosed as loans and receivables) and the valuation of financial derivative open positions (disclosed as held for trading) results in an amount due to the Company. These positions are held to hedge client market exposures and hence are considered to be held for trading and are accordingly accounted for at fair value through profit and loss (FVTPL). These transactions are conducted under terms that are usual and customary to standard margin trading activities and are reported net in the Statement of Financial Position as the Company has both the legal right and intention to settle on a net basis.

'Trade receivables - due from clients' represent balances owed to the Group by clients.

'Trade payables - due to clients' represent balances where the combination of client cash held on account and the valuation of financial derivative open positions results in an amount payable by the Company. Trade payables - due to clients are reported net in the Statement of Financial Position as the Group adjusts the gross amount payable to clients (i.e. monies held on behalf of clients) for profits or losses incurred on a daily basis consistent with the legal right and intention to settle on a net basis.

#### Classification of financial instruments

	<i>Other amortised cost £</i>	<i>Loans and receivables £</i>	<i>Total carrying amount £</i>	<i>Fair value £</i>
<b>As at 31 May 2012</b>				
<i>Financial assets</i>				
Cash and cash equivalents	-	38,545	38,545	38,545
Trade receivables - due from clients	-	26,050	26,050	26,050
	-	64,595	64,595	64,595

Excluded from the financial assets classified as 'loans and receivables' are amounts due from Group companies £416,484 (2011: £1,560,407). Refer to notes 15 and 24.

## Notes to the Financial Statements

at 31 May 2012

### 25. Financial Instruments (continued)

Accounting classifications and fair values (continued)

	<i>Other amortised cost</i>	<i>Loans and receivables</i>	<i>Total carrying amount</i>	<i>Fair value</i>
	£	£	£	£
<b>As at 31 May 2011</b>				
<i>Financial assets</i>				
Cash and cash equivalents	-	507,323	507,323	507,323
Trade receivables - due from brokers	-	206,699	206,699	206,699
Trade receivables - due from clients	-	166,048	166,048	166,048
	-	880,070	880,070	880,070
<i>Financial liabilities</i>				
Trade payables - due to clients	172,275	-	172,275	172,275
	172,275	-	172,275	172,275

#### Items of income, expense, gains or losses

Gains and losses arising from financial assets and liabilities classified as held for trading amounted to net gains of £185,436 (2011 £7,758,343)

Finance costs totalling £401 (2011 £22,081) were incurred in relation to corporation tax payments

## Notes to the Financial Statements

at 31 May 2012

### 26. Financial risk management

As the Company ceased accepting new bets on 23 June 2011 and is not operating as a going concern, the Company is no longer exposed to market, liquidity and concentration risk and no disclosure is presented in relation to these risks

The only risk now considered to be significant to Company is credit risk and disclosure is presented below

#### **(i) Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's credit risk is managed on a group-wide basis

The Company's principal sources of credit risk are financial institution and client credit risk

#### **a) Financial institution credit risk**

Financial institution credit risk is managed in accordance with the Group's 'Counterparty Credit Management Policy'

Financial institutional counterparties are subject to a semi-annual credit review (or more frequently as required e.g. on change in the financial institution's corporate structure or a downgrading of its credit rating). Proposed maximum exposure limits for these financial institutions are then reviewed and approved by the Group's Risk Committee

In respect of financial institution credit risk, the following key metrics are monitored on a daily basis

- Balances held with each counterparty group, against limits approved by the Risk Committee
- Any change in short- and long-term credit rating
- Any change in credit default swap (CDS) price

The Group is responsible under various regulatory regimes for the stewardship of client monies. These responsibilities are defined in the Group's Counterparty Credit Management Policy and include the appointment of and periodic review of institutions with which client money is deposited. The Group's policy is that all financial institutional counterparties holding client money accounts must have minimum Standard and Poor's short- and long-term ratings of A-2 and A- respectively. These are also the target minimum ratings for the Group's own bank accounts held with financial institutions, although in some operating jurisdictions where accounts are maintained to provide local banking facilities for clients it can be problematic to find a banking counterparty satisfying these minimum ratings requirements. Balances held with such counterparties are therefore minimised.

In addition, deposits are typically made on an overnight or breakable term basis which enables the Group to react immediately to any downgrading of credit rating or material widening of CDS spreads.

#### **b) Client credit risk**

Client credit risk principally arose when a client's total funds deposited with the Group were insufficient to cover any trading losses incurred. Further to the cessation of trade, client credit risk arises from the collectability of outstanding debts.

## Notes to the Financial Statements

at 31 May 2012

### 26. Financial risk management (continued)

#### (i) Credit risk (continued)

##### *Credit Risk Analysis*

The following tables present further detail on the Company's exposure to credit risk. External credit ratings (Standard and Poor's long-term ratings or equivalent) are available for exposures to and banks, and these are shown.

Amounts due from clients are considered past due from the date that positions are closed and are aged from that date. If debtors arise on open positions the amounts due from clients are considered neither past due nor impaired unless impairment is provided.

The analysis of neither past due nor impaired credit exposures in the following table excludes retail client funds held in segregated client money accounts or money market facilities established under the UK's Financial Services Authority (FSA) 'CASS' rules. Under these rules, client money funds held with trust status are protected in the event of the insolvency of the Company according to these rules.

	<i>Trade receivables - due from clients</i>		<i>Cash and cash equivalents</i>	
	2012	2011	2012	2011
	£	£	£	£
<b>Individually impaired</b>				
Gross exposure	928,735	991,618	-	-
Allowance for impairment	(902,685)	(974,209)	-	-
	<u>26,050</u>	<u>17,409</u>	<u>-</u>	<u>-</u>
<b>Past due but not impaired</b>				
Ageing profile				
0-3 months	-	134,478	-	-
4-6 months	-	-	-	-
7-9 months	-	-	-	-
10-12 months	-	-	-	-
Older	26,050	-	-	-
	<u>26,050</u>	<u>134,478</u>	<u>-</u>	<u>-</u>
<b>Neither past due nor impaired</b>				
Credit rating				
A+	-	-	-	490,043
A	-	-	38,545	-
A-	-	-	-	-
BB+	-	-	-	9,463
Unrated	-	14,161	-	7,817
	<u>-</u>	<u>14,161</u>	<u>38,545</u>	<u>507,323</u>
<b>Total carrying amount</b>	<u>26,050</u>	<u>166,048</u>	<u>38,545</u>	<u>507,323</u>

## Notes to the Financial Statements

at 31 May 2012

### 26. Financial risk management (continued)

#### *b) Client credit risk (continued)*

##### *Impairment of trade receivables due from clients*

The Company records specific impairments of trade receivables due from clients in a separate allowance account. Impairments are recorded where the Company determines that it is probable that it will be unable to collect all amounts owing according to the contractual terms of the agreement. There are no collective impairments taken, and no other assets are considered impaired. Below is a reconciliation of changes in the separate allowance account during the period:

	2012	2011
	£	£
Balance at beginning of year	974,209	908,880
Impairment loss for the year		
- charge for the year	34,928	108,063
- recoveries	(92,520)	(36,975)
Write-offs	(13,932)	(5,759)
Balance at end of year	902,685	974,209

### 27. Capital management and resources

#### *Capital management*

The Group is supervised on a consolidated basis by the UK's Financial Services Authority (FSA). Individual capital requirements of the subsidiaries are taken into account when managing the Group's capital resources.

The Group's regulatory capital resources management objective is to ensure that the Group complies with the regulatory capital resources requirement set by the FSA and other global regulators in jurisdictions in which the Group's entities operate. The Group's capital management policy aims to maximise returns on equity while maintaining a strong financial position to enable the Group to take advantage of growth opportunities, whether organic or by acquisition. The Group does not seek to generate higher returns on equity by introducing leverage through, for example, the use of long-term debt finance.

The Group's 2011 ICAAP was approved by the Board in January 2012. There have been no capital requirement breaches during the financial year. The Group also regularly undertakes three-year stress and scenario testing of its main financial and operational risks to project its future capital and liquidity adequacy requirements.

The Group's 'Pillar 3 Disclosures' are published on its website [www.iggroup.com](http://www.iggroup.com) and these provide additional information on the Group's enterprise-wide risk management framework and its management of regulatory capital on a consolidated and solo entity basis.

### 28. Subsequent events

On 17 July 2012, Andrew MacKay, announced his decision to step down from the Board with effect from 31 July 2012.

## Notes to the Financial Statements

at 31 May 2012

### 29. Ultimate parent undertaking and controlling party

The immediate parent undertaking is IG Finance 8 Limited

The ultimate parent undertaking and controlling party is IG Group Holdings plc, a company incorporated in the United Kingdom

IG Group Holdings plc is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 May 2012. The consolidated financial statements of IG Group Holdings plc are available from Cannon Bridge House, 25 Dowgate Hill, London EC4R 2YA