



# PROBABILITY plc

annual report and accounts  
2007



# PROBABILITY PLC

## GROUP REPORT AND ACCOUNTS

31 MARCH 2007

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### GROUP INFORMATION

#### Directors

Graham Thomas Parr (Non-Executive Chairman)

Charles Philip Cohen (Chief Executive Officer)

John Lewis Scaife (President)

Ravi Ishwar Ruparel (Financial Director)

Benjamin Hirsch (Non-Executive Director)

Timothy Lloyd Jones (Non-Executive Director)

Robert Spriddell (Non-Executive Director)

#### Secretary

MH Secretaries Limited

12 Great James Street

London WC1N 3DR

#### Auditors

UHY Hacker Young LLP

St Alphage House

2 Fore Street

London EC2Y 5DH

#### Nomand Advisor and Broker

Evolution Securities Limited

9th Floor

100 Wood Street

London EC2V 7AN

#### Registrars

Capita Registrars

The Registry

34 Beckenham Road

Kent BR3 4TU

#### Registered office

12 Great James Street

London WC1N 3DR

#### Registered number

5830059



### CHAIRMAN'S STATEMENT

During the year, Probability has consistently demonstrated an ability to achieve results in line with, if not ahead of, management's expectations.

Particularly strong growth experienced in the period post flotation indicates the potential which this business has to secure a substantial place in the newly emerging mobile gambling sector.

The underlying strength of Probability's business remains in our focus on the mobile consumer and in the technologies we have developed that enable us to overcome the unique challenges presented by a mobile environment in which as many as ten new phones reach the market each week.

Changes in the regulatory environment in the past year have favoured us and strengthened our position. The Group has never taken bets from the United States and is currently largely focused on the UK domestic market. The move of our gambling operations to Alderney post flotation placed us on a sound future footing in the context of the 2005 Gambling Act. From September 2007 we anticipate a relaxation of the rules for advertising and promotion of our services that will significantly increase our potential marketing choices.

Looking ahead, our strategy remains to focus on the mobile user and to move towards profitability in our core Casino, Bingo and Slots business. We are confident of achieving this within current resources. In addition, we are pursuing an aggressive programme of innovation aimed at bringing entirely new gambling formats to market, which are uniquely positioned to take advantage of people's mobile lifestyles. Any one of the new concepts currently under consideration could add significant new revenue streams to the Group and support the core business with additional customer flows. However, no new revenues have been forecast at this point in time.

I would like to thank our whole team for their continued dedication and contribution to the Group and its development. Our achievements genuinely are theirs. Every day we are breaking new ground and being presented with challenges to overcome, which demand teamwork, imagination, intelligence and persistence – which we unerringly do.

We are fully confident that the next stage of our growth will see us achieve profitability in our core business with the opportunity to generate significant new revenues through innovative new products for mobile gambling customers.

Graham Parr  
**Chairman**  
31-Jul-07



## CHIEF EXECUTIVES REPORT

### BUSINESS REVIEW

Probability is a vertically integrated mobile gambling operator. Our strategy at this stage of our business development and in the early stages of the market is to control as much of the value chain as possible in order to control margins and reduce risk.

We therefore maintain a technology development and design department in house, as well as marketing and customer relationship management. Currently, all bets are taken by us under our own gambling licence in Alderney.

Ownership of our own electronic wallet enables us to manage all payments to and from users through a variety of financial instruments ranging from traditional credit card payments to over-the-counter cash vouchers and mobile bill charging.

During the year we made significant progress in all aspects of the operation:

#### **Expanded product portfolio**

In the year to 31 March 2007, Probability continued to advance its strategy of developing and operating a wide portfolio of popular mobile gambling formats and associated payment services for mobile phone users. As well as completing the 'classic' Casino games we introduced a very successful Bingo product, which now accounts for some 50% of revenues.

We plan to make significant additions to the product portfolio during 2007 by improving our existing offering and adding potential new revenue streams from innovative new services currently under consideration.

#### **Introduction of 'house' brand: Lady Luck's**

As well as a "white label" service for larger mobile content distributors and other gambling companies, the Company extended the promotion of its house brand, Lady Luck's, to smaller affiliates and through performance marketing.

During the coming year we plan to review our branding strategy as the market develops and have explored other opportunities including the creation of a Bingo! service endorsed by the astrologer Russell Grant.

#### **Driving Customer Acquisition through diverse channels**

Access to varied and dynamic streams of new customers on their mobile devices is and remains the key marketing channel for all our services. Our strategy is to favour performance based marketing and where this is not available, to identify routes to acquiring customers which have a predictable return on investment.

The market for mobile content distribution changed significantly during 2006 following a shake-out of many firms using subscription payment models and a sharp decline in margins for products such as ring tones. At the same time, a critical mass of more capable devices in the hands of consumers created a new market for more sophisticated and higher value products and services on mobile phones, particularly for games and video content.

We have positioned ourselves to take advantage of this change in the market by developing our capability to recruit customers through links and adverts on Wap sites, including mobile operator portals, and establishing strong relationships with the key companies in the mobile advertising agencies and networks.

We have portal presence on a revenue share basis on Orange, Three and T-Mobile, as well as O2 i-mode. We expect to be able to access other operator portals in due course as they introduce appropriate sections or allow advertising.

A very recent and positive development has been the emergence of a mobile search market, which allows us to bid for positions in mobile internet searches. Google, MSN and Yahoo! currently dominate this area and we have begun working with all of these directly or through specialist agencies. We expect mobile search to provide a significant additional source of new customers in the coming year.

### **Customer Relationship Management ('CRM')**

A significant part of the investment post flotation was on back-end systems designed to provide a tailored platform for SMS and in-game promotion to existing players. We are now able to generate promotional campaigns to our players in real time with precision targeting capabilities that yield ROI figures as high as 1000% and response periods of less than two minutes.

A creative and data driven approach to CRM is a key success factor in any gambling business. Ownership of such tools and our experience in using them is perceived as a key asset, which will reward continued investment in every way.

### **Regulation and Social Responsibility**

The Group is committed to operating at the highest level of regulatory probity and ethical standards as a critical success factor in the execution of its commercial plans. In September 2006, following flotation on the AIM market, Probability relocated its gambling operations to Alderney under a full E-Gambling licence, one of the most respected jurisdictions for remote gaming. The Company also secured a certificate for social responsibility from GamCare, the leading charity concerned with problem gambling.

We continue to keep a close eye on developments in the regulatory environment and will take any actions necessary to mitigate any potential risks which may arise, although we do not currently perceive any short or medium term regulatory risk affecting our existing business.

### **Geographic focus**

Uncertainty in the international arena led us to scale back our international ambitions to small scale trial marketing in South Africa and Ireland. Future activity is under review and is subject to legal risk assessment. Our focus for the coming year will remain achieving profitability in the UK market.

### **Management Information Systems**

An additional investment was made during the year in a real-time management information system, which produces a 'live' profit and loss screen for internal use as well as flexible and powerful tools for different parts of our operation to manage our services pro-actively and with reliable data.

### **Financial Review**

Ahead of management expectations, Probability is reporting a full year pre-tax loss of £3.7m (that includes a share based payment charge of £1.56m) (2006: £733k) on a turnover of £11.9m (2006: £833k).

Having raised £3.6m (net) at the time of its AIM flotation, the Group's cash position at 31 March 2007 was £1.67m (2006: £553k). The Directors do not believe that any additional financing will be required. Importantly, the Company expects to be profitable and cash generative at an operational level in the UK in calendar 2007.

### Outlook

Several significant trends are creating a rising tide for mobile gambling which, properly positioned, Probability will be in a ideal position to take advantage of. In particular, the main trends in the marketplace are:

#### ***Mobile internet usage is creating mass market demand for mobile content and services.***

Previously a youthful early adopter community drove mobile services with low value purchases such as ringtones and small games. Now, however, sufficient numbers of regular consumers have capable devices to create a substantial new market for higher value services. 27% of UK mobile customers now regularly use mobile internet services, with some networks such as Three having over 60% uptake.

#### ***Mobile operators are reducing the cost of going on-line with your mobile.***

O2, T-Mobile and Three all have flat-rate data tariffs. Other operators are cutting their package charges or considering flat-rate options for consumers. Evidence from the domestic broadband market and also overseas mobile markets (particularly Japan) suggests that removing the pay-as-you-go barrier from data charging can have a significant positive impact on usage.

#### ***Deregulation of promotion of gambling services by the 2005 Act alters the landscape for direct to consumer promotion in the UK.***

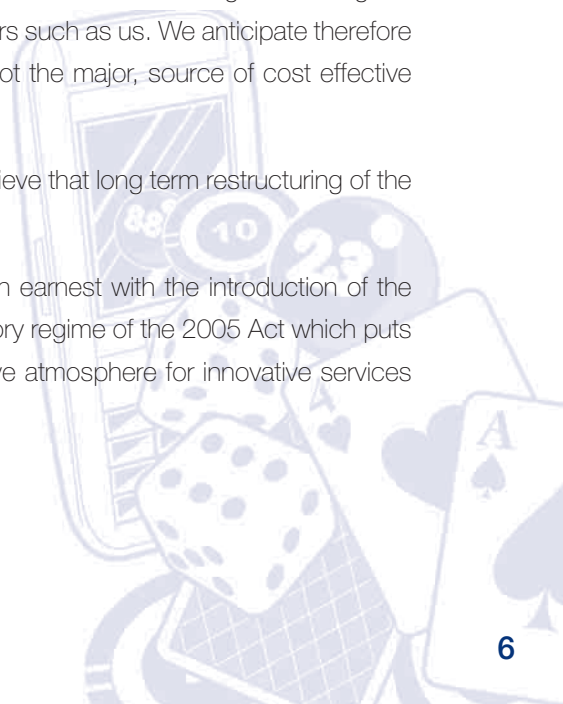
The provisions of the 2005 Gambling Act will come into force on September 1st to substantially relax the rules governing the promotion of gambling services in the UK. Until now, promotion direct to consumer has been less effective than it might because of the restrictions which will fall away when the Act comes into force.

#### ***Creation of an efficient market for mobile advertising and search.***

Until the most recent quarter, there has been very little inventory available to us for direct customer acquisition on mobile. This picture is changing fast. Not only have we experienced month on month five and ten fold increases in the amount of wap inventory being offered to us in the last several months, but prices have been falling and a range of professional agencies have entered the market to make it more efficient for buyers such as us. We anticipate therefore that mobile internet advertising will continue to grow and become a major, if not the major, source of cost effective customer recruitment for us in the near future.

In addition to these trends in the market for mobile content and services, we believe that long term restructuring of the gambling industry also works in our favour. In particular we believe that:

The trend of remote gambling as a socially acceptable activity, which began in earnest with the introduction of the National Lottery, is now deeply rooted and will be reinforced by the new regulatory regime of the 2005 Act which puts consumer protection at the heart of the legal framework. This creates a positive atmosphere for innovative services such as ours.



# PROBABILITY PLC

## GROUP REPORT AND ACCOUNTS

UK Gamblers have significantly more choice than previously offered and have demonstrated a willingness to try new things and engage with new brands. In particular, this is demonstrated by the success of Fixed Odds Betting Terminals in licenced betting premises, and by the emergence of new brands for gambling that exist only on the Internet for Casino and Poker. We believe that this indicates an opportunity for Probability to be closely identified with mobile gambling as a separate and additional type of gambling rather than a cross-over from other forms of gambling by existing brands.

These trends provide support for the core vision of our business and indicate the scale of the opportunity which we believe that we have.

We will therefore continue to pursue our strategy of focussing on the UK mobile consumer by offering a first rate mobile Casino product, mobile Bingo and Slots.

Our marketing strategy in this aspect of our business will remain on performance marketing and will trend towards a higher proportion on customer acquisition through bounty based affiliate relationships, direct advertising and search result placings with high traffic mobile internet services.

At the same time we will retain our white label business focussing on those partners who wish to mobilise an existing base of gambling customers, using our unique technology and mobile skills, as well as long standing relationships with mobile content companies who have significant databases of customers.

This strategy will, we believe, continue to drive the business to operating profitability during the coming financial year.

In addition to the core business we are pursuing an aggressive programme of innovation aimed at developing new, mobile-centric, gambling formats which could, if succesful, provide new flows of customers to the core business as well as generating significant and new revenue streams in their own right.

Charles Cohen  
**Chief Executive**



## CORPORATE GOVERNANCE

The Directors recognise the value and importance of high standards of corporate governance. Since the admission to AIM in August 2006 the Board has been set up to comply with the main provisions of the Combined Code. The company also follows the recommendations on corporate governance on the Quoted Companies Alliance for companies with shares traded on AIM.

Given the Company's size and the constitution of the Board, the following is a brief summary of the main aspects.

With effect from the Admission to the AIM market in August, the Board has established an Audit Committee and a Remuneration Committee with formally delegated responsibilities.

The Remuneration Committee is chaired by Graham Parr. Its other members are Timothy Jones, Benjamin Hirsch and until his resignation, John Pedersen. This committee reviews the performance of the Executive Directors and makes recommendations to the Board on matters relating to their remuneration and terms of employment. The Remuneration Committee also makes recommendations to the Board on proposals for the granting of share options and other equity incentives.

The remuneration and terms and conditions of appointment of the Non-executive Directors will be set by the Board.

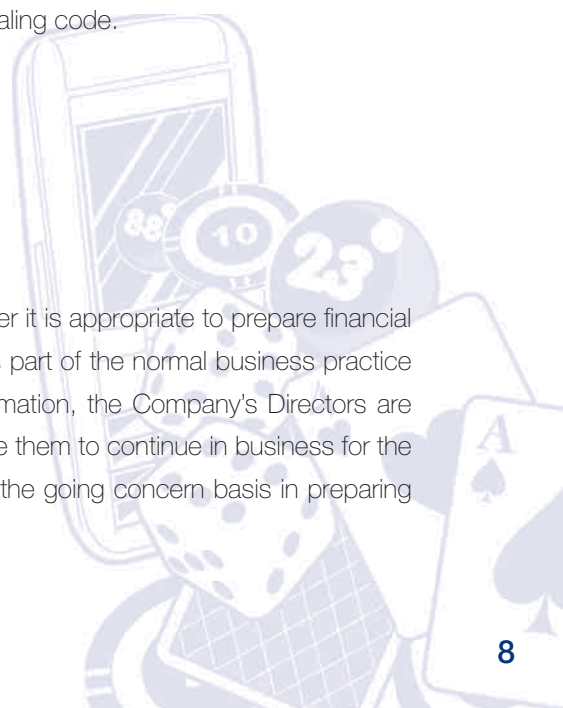
The Audit Committee is chaired by Timothy Jones. Its other members are Graham Parr, Benjamin Hirsch and until his resignation John Pedersen. The Audit Committee monitors the quality of internal controls and ensures that the financial performance of the Company is properly measured and reported on. It reviews reports from the Company's management and auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the group.

As the Board is small, there is not a separate Nominations Committee and recommendations for appointments to the Board are considered by the Board as a whole.

The Directors follow the guidance set out by Rule 21 of the AIM Rules relating to dealings by Directors in the Company's securities and, to this end, the Company has adopted an appropriate share dealing code.

## GOING CONCERN

Under Company Law, the Company's Directors are required to consider whether it is appropriate to prepare financial statements on the basis that the Group and Company are going concerns. As part of the normal business practice the group prepares annual and longer term plans and, in reviewing this information, the Company's Directors are satisfied that the Group and the Company have reasonable resources to enable them to continue in business for the foreseeable future. For this reason the Company and Group continue to adopt the going concern basis in preparing the financial statements.



### DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 March 2007.

#### Principal activities

The business of the group is to develop and operate gambling services for mobile phone users.

#### Results and dividends

The trading results for the year and the group and company's financial position at the end of the year are shown in the attached financial statements and are discussed in the business review.

The company will not be paying a dividend this year.

#### Annual General Meeting

The next Annual General Meeting of the Company will be held on 28th September 2007. Details of the business to be proposed at the meeting are contained within the notice of the meeting, which accompanies this report.

#### Directors

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

		£0.01 Ordinary shares 31-Mar-07
Graham Thomas Parr	(Appointed 12th June 2006)	172,662
Charles Philip Cohen	(Appointed 12th June 2006)	2,160,000
John Lewis Scaife	(Appointed 12th June 2006)	2,160,000
Ravi Ishwar Ruparel	(Appointed 12th June 2006)	Nil
Benjamin Hirsch	(Appointed 12th June 2006)	33,500
Timothy Lloyd Jones	(Appointed 12th June 2006)	40,430
John James Hurlburt Pedersen	(Resigned 8th May 2007)	Nil
Robert Spriddell	(Appointed 8th May 2007)	Nil

There have been no changes to the holdings since the end of the financial year.

The table below summarises the exercise terms of the various options over Ordinary shares of £0.01 each which have been granted, and were still outstanding at 31 March 2007.

The options below were immediately exercisable and have no expiry date:

	Ordinary Shares granted in the year under option	Exercise Price (pence)
Charles Philip Cohen	612,880	15p
John Lewis Scaife	612,880	15p
Ravi Ishwar Ruparel	136,960	(1p-71p)

No options were exercised or lapsed in the year for any of the Directors. No other Directors were granted options in the year.

### DIRECTORS' REPORT

The following table sets out the Directors Remuneration during the year: (Audited)

	Salary and Fee £'000	Bonus £'000	Other benefits £'000	2007 total £'000	2006 total £'000
Graham Thomas Parr	65			65	Nil
Charles Philip Cohen	123			123	72
John Lewis Scaife	106			106	72
Ravi Ishwar Ruparel	103	20		123	Nil
Benjamin Hirsch	28			28	Nil
Timothy Lloyd Jones	28			28	Nil
John James Hurlbert Pedersen	Nil	Nil	Nil	Nil	
Totals	453	20	0	473	144

#### Events during the year

During the year the company issued equity for two reasons:

1. 12,115,998 ordinary shares were issued on 14 June 2006 to acquire the entire share capital of Probability Games Corporation Limited.
2. 5,460,526 ordinary shares were issued in August 2006, on Admission to AIM. This raised £3.6 million (net of costs)

As part of the share for share exchange with Probability Games Corporation Limited, all share options in that company were cancelled and reissued in Probability PLC.

#### Key Performance Indicators

The registered players was 173,657 at the year end. This represented excellent growth over the year and particularly in the least three month where it increased by 23% from 141,103.

The number of cash depositors and gross wagers processed has also grown significantly over the year.

The Directors intend to continue to provide shareholders with quarterly unaudited KPI data and expect to widen the number of indicators over the coming year.

#### Post Balance Sheet Events

There have been no material post balance sheet events.

#### Creditors Payments

The creditors payment period at 31 March 2007 was 32 days. The usual payment terms are 45-60 days.



## DIRECTORS' REPORT

### Substantial Shareholders

As at 31 March 2007 the following shareholders had direct or indirect interests over 3% or more of the issued share capital of the company.

Wheddon Limited	21.50%
C Cohen	12%
J Scaife	12%
Tudor Capital	8.50%
Guild Ventures	3%
Foresight VCT	6%
Al Nasr Group	3%

### Use of financial instruments

The group uses various financial instruments including cash, equity, loans and treasury deposits.

The group does not use derivative products.

### Risks relating to the business of the Group

#### *Casino risk*

The Group is exposed to risk in relation to its mobile casino operations. Whilst the Group's mobile casinos and other games incorporate a house "edge" designed to provide a return to the Group over a large number of bets, in the short term the Group's mobile casinos and other games may experience losses.

#### *Lack of operating history; history of losses*

The Group has incurred net losses since it was incorporated. Furthermore, whilst the Group has achieved significant growth in its revenue over the past six months there can be no guarantee that this revenue or the historic levels of growth can or will be sustained.

#### *Dependence on affiliate and marketing partners*

The Group has established affiliate and marketing relationships. These relationships provide the Group with new customers, insight into new markets and support the Group's product development and sales activities.

There is no guarantee that the Group will be able to maintain these alliances, enter into further alliances or that existing partners will not enter into relationships with the Group's competitors. The loss of any of these relationships could have a material adverse effect on the Group's ability to develop and successfully market its products and services.

## DIRECTORS' REPORT

### **Dependence on relations with third parties**

The Group's business and technology is dependent on mobile networks and manufacturers' products, mobile content providers and media groups. If there is any interruption to the products or services provided by other third parties or if there are problems in supplying the products or services, the Group's business could be adversely affected.

### **Possibility of player fraud (including identity theft)**

As an operator of remote gambling services, players register with the Group and place bets without any employee of the Group meeting the player in person. Accordingly, the Group is not able to verify that the information provided by each player upon registration is genuinely that person's information, but can only verify that the information provided is prima facie correct. This creates a financial risk, as the Group is obliged to refund any bets to the victim of the identity fraud, a reputational risk to the Group's standing as a socially responsible operator, and a regulatory risk if the relevant gambling regulator believes that the Group has not acted in accordance with its commitment to the regulator to have "reasonable belief" about the identity of a player.

### **Growth management**

The Directors anticipate that further significant expansion of its operations will be required to address the anticipated growth in the markets in which the Group operates. The Group's future success will depend in part on its ability to manage this anticipated expansion.

### **Competition**

The Group expects to experience increasing competition from a number of companies operating within the mobile gambling market.

### **Changes in consumer preferences**

There are a number of trends in consumer preferences which may impact on both the Group and its industry as a whole. These include the growth in gambling, the growth in mobile content and the growing acceptance of electronic payment mechanisms.

### **Technological/industry standards change**

The markets for the Group's games and the mobile phones on which they are operated are characterised by rapidly changing technology, evolving industry standards and increasingly sophisticated customer requirements. Changing customer requirements and the introduction of new games and mobile phones embodying new technology and the emergence of new industry standards may render the Group's existing products obsolete and unmarketable.

### **Key personnel**

The Group depends on the services of its senior management and its key technical, sales and marketing personnel. The loss of the services of any of these persons could have a material adverse effect on the Group's business, operating results and/or financial position.

## DIRECTORS' REPORT

### **System failures and breaches of security**

The successful operation of the Group's business depends upon maintaining the integrity of the Group's computer, mobile, communication and information technology systems. However, these systems and operations are vulnerable to damage, breakdown or interruption from events which are beyond the Group's control, such as fire, flood and other natural disasters; power loss or telecommunications or data network failures; improper or negligent operation of the Group's system by employees, or unauthorised physical or electronic access; and interruptions to the Internet system's integrity generally as a result of attacks by computer hackers or viruses or other types of security breaches. Any such damage or interruption could cause significant disruption to the operations of the Group.

### **Foreign country and political risk**

Some of the Group's interests in the future may be located in second or third world countries, consequently, the Group may be subject to certain risks, including possible political or economic instability, changes in laws relating to property ownership and/or state intervention in the operation of private businesses in those countries.

Any changes in regulations or shifts in political attitudes are beyond the control of the Group and may adversely affect its business, operating results and/or financial condition.

### **Regulatory risk factors**

The Group operates and depends on an off-shore gambling/gaming provider for individual customers (players) using its own facilities in Alderney, where it is licensed, and its gambling/gaming operation is based. The use of remote gaming services such as those provided by the Company in Alderney or by other companies which may take bets on behalf of the Group by these customers might be or become subject to specific restrictions on the use of off-shore gambling/gaming services local to the players themselves. Regulatory and other local authorities in such other countries may also impose restrictions on the promotion and/or operation of off-shore gambling/gaming services and/or the use of financial instruments directly with off-shore gambling/gaming service providers.

Where such restrictions exist, or come into existence in the future, and/or in each case are actively enforced, the Company may not be able to offer its gambling/gaming services, or may be required to seek on-shore gambling/gaming licences local to these territories. Restrictions on promotion and/or the operation of remote gambling/gaming services in any particular location might also diminish or inhibit the Company's ability to secure affiliate marketing relationships in such territories.

The Directors are taking specialist advice and intend to seek whatever specialist advice is available to it at appropriate times in the future to determine the current extent of such risks as may exist in this regard for specific territories in which it is currently operating, or where it may intend to expand in the future, and tailoring the Company's offerings in accordance with that advice.

## DIRECTORS' REPORT

### Disclosure of information to auditors

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

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

### Auditors

On 30 April 2007 the company's auditors, UHY Hacker Young, transferred their business to a limited liability partnership, UHY Hacker Young LLP ("the LLP") and the office of the auditors has passed to the LLP. In accordance with Section 385 of the Companies Act 1985, a resolution that UHY Hacker Young LLP be reappointed as auditors of the company will be put to the Annual General Meeting.

This report was approved by the board on 31st July 2007.

C Cohen

**Chief Executive Officer**



### STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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



# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PROBABILITY PLC

We have audited the group and parent company financial statements ("the financial statements") of Probability plc for the year ended 31 March 2007 which comprise the Group Profit and Loss account, the Group and Company Balance Sheets, the Group Cash Flow Statement, and related notes. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of responsibilities of those charged with governance.

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 directors' report is consistent with the financial statements. The information given in the Directors' Report includes specific information presented in the Chairman's Statement and the Business Review that is cross referred from the Directors' Report. In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 Group's and 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.

### 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 Group's and the Company's affairs as at 31 March 2007 and of the group's loss 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 director's report is consistent with the financial statements.

UHY Hacker Young LLP  
Chartered Accountants  
Registered Auditors

31 July 2007

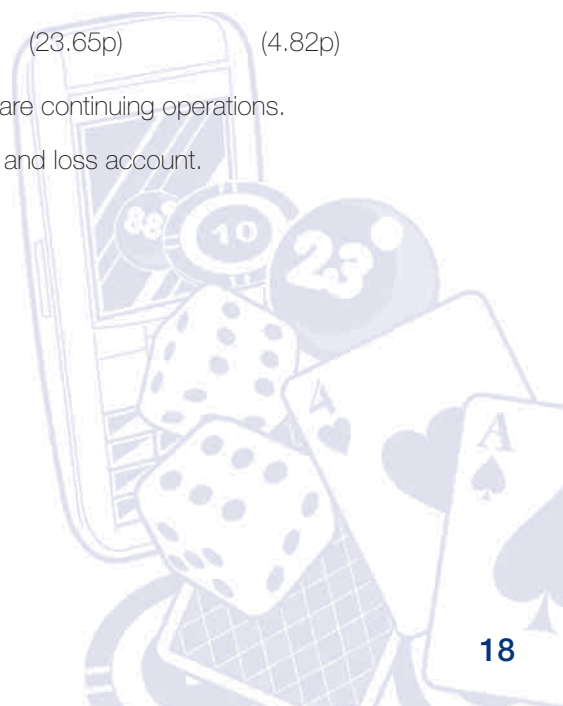
St Alphage House  
2 Fore Street  
London EC2Y 5DH

## GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

	Notes	2007 £	2006 £
<b>Group Turnover</b>	2	11,941,800	833,459
Cost of sales		(11,797,537)	(697,482)
<b>Gross profit</b>		144,263	135,977
Distribution costs		(295,715)	(135,680)
Administrative expenses excluding exceptional items		(2,049,516)	(758,558)
Other operating income		-	25,000
<b>Operating loss before exceptional items</b>	3	(2,200,968)	(733,261)
Operating exceptional item	4	(1,569,127)	-
Total administration expenses		(3,618,643)	(758,558)
Operating loss		(3,770,095)	(733,261)
Interest receivable		75,987	13,099
Interest payable	8	(25,026)	(15,000)
<b>Loss on ordinary activities before taxation</b>		(3,719,134)	(735,162)
Tax on loss on ordinary activities	9	-	195,483
<b>Loss for the financial year</b>		(3,719,134)	(539,679)
<b>Loss per ordinary share</b>			
Basic Diluted	5	(23.65p)	(4.82p)

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains or losses other than those recorded in the profit and loss account.



## BALANCE SHEETS AS AT 31 MARCH 2007

	Notes	2007 £	2006 £
<b>Consolidated</b>			
<b>Fixed assets</b>			
Intangible assets	11	122,670	64,120
Tangible assets	12	170,466	25,604
		<hr/>	<hr/>
		293,136	89,724
<b>Current assets</b>			
Debtors due within one year	14	299,548	318,701
Debtors due after more than one year	14	195,483	195,483
Cash at bank and in hand		1,670,781	572,285
		<hr/>	<hr/>
		2,165,812	1,086,469
<b>Creditors: amounts falling due within one year</b>			
	15	(399,936)	(553,902)
		<hr/>	<hr/>
<b>Net current assets</b>		1,765,876	532,567
<b>Total assets less current liabilities</b>			
		<hr/>	<hr/>
		2,059,012	622,291
<b>Creditors: amounts falling due after more than one year</b>			
	16	-	(40,556)
		<hr/>	<hr/>
<b>Net assets</b>		2,059,012	581,735
<b>Capital and reserves</b>			
Called up share capital	17	179,699	121,160
Share premium	18	3,568,744	-
Merger reserve	20	1,379,873	1,379,873
Other reserve	21	1,569,128	-
Profit and loss account	22	(4,638,432)	(919,298)
		<hr/>	<hr/>
<b>Shareholders' funds</b>	24	2,059,012	581,735

C Cohen  
**Director**

Approved by the board on 31st July 2007

## BALANCE SHEETS AS AT 31 MARCH 2007

Company	Notes	2007 £
<b>Fixed assets</b>		
Investments	13	121,160
		<hr/> 121,160
<b>Current assets</b>		
Debtors	14	3,448,457
		<hr/> 3,448,457
<b>Creditors: amounts falling due within one year</b>	15	<hr/> (20,185)
<b>Net current assets</b>		3,428,272
<b>Total assets less current liabilities</b>		3,549,432
<b>Net assets</b>		<hr/> 3,549,432 <hr/>
<b>Capital and reserves</b>		
Called up share capital	17	179,699
Share premium	18	3,568,744
Other reserve	21	1,569,128
Profit and loss account		<hr/> (1,768,139)
<b>Shareholders' funds</b>		<hr/> 3,549,432 <hr/>

C Cohen

**Director**

Approved by the board on 31st July 2007



## GROUP CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

	Notes	2007 £	2006 £
<b>Reconciliation of operating profit to net cash inflow from operating activities</b>			
Operating loss		(3,770,095)	(733,261)
Share based payments		1,569,128	-
Depreciation charges		27,989	8,132
Amortisation of Intangibles		43,457	-
Decrease/(Increase) in debtors		19,153	(267,793)
(Decrease)/increase in creditors		(175,627)	391,004
Movement in Provision		-	(25,000)
<b>Net cash outflow from operating activities</b>		<b>(2,285,995)</b>	<b>(626,918)</b>
<b>CASH FLOW STATEMENT</b>			
<b>Net cash outflow from operating activities</b>		<b>(2,285,995)</b>	<b>(626,918)</b>
<b>Returns on investments and servicing of finance</b>	25	50,961	13,099
<b>Taxation</b>		-	-
<b>Capital expenditure</b>	25	(274,859)	(96,416)
		<b>(2,509,893)</b>	<b>(710,235)</b>
<b>Financing</b>	25	3,627,284	1,194,019
<b>Increase in cash</b>		<b>1,117,391</b>	<b>483,784</b>
<b>Reconciliation of net cash flow to movement in net funds</b>			
<b>Increase in cash in the year</b>		1,117,391	483,784
<b>Change in net funds</b>	26	<b>1,117,391</b>	<b>483,784</b>

# NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

## 1 Accounting policies

Probability plc was incorporated on 26 May 2006 for the purpose of achieving admission to trading on the Alternative Investment Market ("AIM") of the existing business of Probability Games Corporation Limited (which was originally established in 2003) and its subsidiaries. On 12 June 2006, Probability plc acquired the entire share capital of Probability Games Corporation Limited ("PGC") by means of a share for share exchange. The transaction qualified as a group reconstruction within the meaning of Financial Reporting Standard 6 "Acquisitions and Mergers", and has been accounted for using the merger accounting method.

### Basis of preparation

#### a) Current period

The financial statements consolidate the results, cash flows and assets and liabilities of the company and its wholly owned subsidiary undertakings by the method of merger accounting. The Group's commercial business and trading are carried out almost entirely by the subsidiary undertakings, PGC and Probability Games (Alderney) Limited ("Alderney").

Both the Companies Act 1985 and applicable accounting standards require that the results of the subsidiary undertakings should be included for the full period of the company's financial year, which is the ten month period from incorporation from 26th May 2006 to 31 March 2007.

However, the directors consider that to present the profit and loss for the Group which comprises essentially the profit and loss of PGC and Alderney on this ten month basis would be misleading, as financial statements reflecting the normal (12 month) accounting period of PGC and Alderney would give a fairer presentation of the trading results of the Group.

The directors have therefore prepared these financial statements including the results of its subsidiary undertakings from 1 April 2006 in order to present a true and fair view.

#### b) Corresponding amounts

As these are the company's first annual accounts, there are no corresponding amounts. However, in order to provide meaningful comparative information, corresponding amounts have been prepared as if the company and hence group had been in existence prior to 1 April 2005.

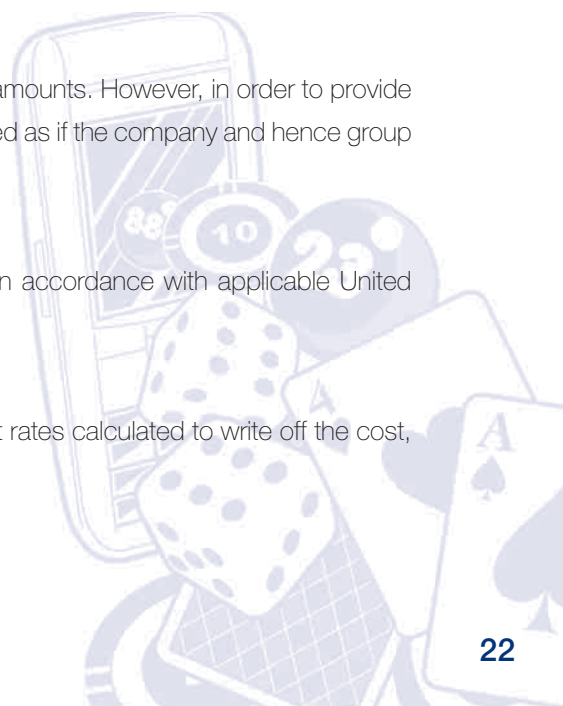
### Accounting Convention

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

### Depreciation

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

Plant and machinery	25% straight line
Fixtures, Fittings and equipment	25% straight line



## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

### *Deferred Taxation*

Deferred Tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

Deferred tax assets are recognised to the extent that they are recoverable. They are regarded as recoverable to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

### *Foreign Currencies*

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

### *Share based payments*

From 1 March 2006 the group adopted FRS 20 which deals with share-based payments made for services or goods rendered. The fair value of share options granted is calculated using the Black Scholes option pricing model. The expense is spread over the period from the date of grant to the date that options vest and are exercisable, based on the company's best estimate of the number of shares that will eventually vest.

### *Research and development costs*

Research costs are charged as an expense in the period in which they are incurred. Development costs are charged as an expense in the period incurred unless the Company believes a development project meets generally accepted accounting criteria for deferral and amortisation.

### *Pensions*

The group makes contributions to the personal pension plans of certain employees. Contributions are charged to the profit and loss account as they become payable.

### *Operating leases*

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

### *Players deposits*

The players deposits are considered as amounts held for third parties and kept separately from those of the company's own cash deposits. These deposits are fully repayable on demand. Included within cash at bank and in hand as at the balance sheet date is an amount of £49,000 relating to player deposits with a corresponding liability within other creditors.

### *Financial instruments*

Financial Reporting Standard 13 requires information to be disclosed about the impact of financial instruments on the group's risk profile, how the risks arising from financial instruments might affect the entity's performance, and how these risks are being managed.

The group's policies include that no trading in derivative financial instruments shall be undertaken for speculative purposes.

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

### 2 Turnover

Turnover represents the value of goods and services supplied by the company. During the year this was either invoices raised, gross wagers or license fee income.

The total turnover of the group for the year has been derived from its principal activity wholly undertaken within the United Kingdom.

Since 1st September 2006 the Group has derived its Turnover from Gross Wagers through its Alderney Company. Prior to this all turnover was fee income and not Gross wagers. This is because it was from this date that the Company started to operate its gambling services under license in Alderney.

### 3 Operating loss

This is stated after charging:

	2007 £	2006 £
Depreciation of owned fixed assets	27,989	8,132
Amortisation of intangible assets	43,457	-
Operating lease rentals - land buildings	69,715	10,470
Auditors' remuneration for audit services	45,000	10,000
Auditors' remuneration for other services	94,273	-

### 4 Operating Exceptional Item

Share based payment

	2007 £	2006 £
	(1,569,127)	Nil

### 5 Loss per share

	Loss attributable to ordinary shareholders £'000	2007 Weighted average no of shares (no in thousands)	Loss per share (pence)	2006 Loss attributable to ordinary shareholders £'000	2006 Weighted average number of shares (no in thousands)	2006 Loss per share (pence)
Basic (loss) per share	(3,719)	15,726	(23.65)	(540)	11,200	(4.82)
Basic earnings/(loss) per share	(3,719)	15,726	(23.65)	(540)	11,200	(4.82)

The diluted loss per ordinary share equals the basic loss per ordinary share as the conversion of share options would be anti-dilutive.

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

### 6 Staff Costs

	2007 £	2006 £
Wages and salaries	1,190,707	374,679
Social security costs	120,973	43,278
	<u>1,311,680</u>	<u>417,957</u>

### Number of employees

The average monthly number of employees (including directors) this year was:

	2007	2006
Management and Administration	10	4
Technical	10	4
	<u>20</u>	<u>8</u>

### 7 Directors Remuneration

Details of the directors emoluments including details of share option schemes are given in the report of the directors. These disclosures form part of these financial statements of the group.

### 8 Interest payable

	2007 £	2006 £
Other loans	25,026	15,000
	<u>25,026</u>	<u>15,000</u>

### 9 Taxation

	2007 £	2006 £
Analysis of charge in year		
Deferred tax:		
Origination and reversal of timing differences	-	(195,483)
	<u>-</u>	<u>(195,483)</u>
Tax on loss on ordinary activities	-	(195,483)
	<u>-</u>	<u>(195,483)</u>



## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

### Factors affecting tax charge for year

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

	2007 £	2006 £
Loss on ordinary activities before tax	(3,719,134)	(735,162)
Standard rate of corporation tax in the UK	19%	19%
	£	£
Loss on ordinary activities multiplied by the standard rate of corporation tax	(706,635)	(139,681)
Effects of:		
Expenses not deductible for tax purposes	334,455	16,566
Depreciation	5,318	1,545
Capital allowances	(11,363)	(2,500)
Tax losses utilised	-	124,070
Unrelieved tax losses	378,225	-
Current tax charge for year	-	-

### 10 Parent Company Losses

The parent company has taken advantage of the exemption from presenting its own profit and loss account as permitted by section 230 of the Companies Act 1985. The group loss for the year includes a loss after tax of the parent of £1,768,139 and it has been dealt within the financial statements of the parent company.

### 11 Intangible fixed assets

#### Cost

At 1 April 2006	64,120
Additions	102,007
At 31 March 2007	166,127

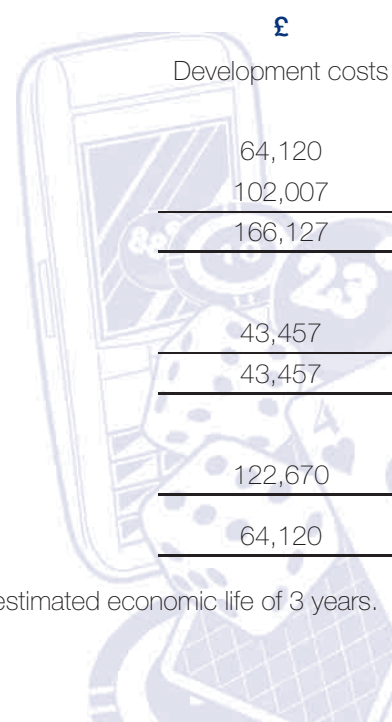
#### Amortisation

Provided during the year	43,457
At 31 March 2007	43,457

#### Net book value

At 31 March 2007	122,670
At 31 March 2006	64,120

Development costs are being written off in equal annual instalments over their estimated economic life of 3 years.



## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

### 12 Tangible fixed assets

	Short leasehold land and buildings	Plant and machinery	Tools
	£	£	£
<b>Cost</b>			
At 1 April 2006	25,609	8,608	34,217
Additions	74,540	98,311	172,851
At 31 March 2007	100,149	106,919	207,068
<b>Depreciation</b>			
At 1 April 2006	6,461	2,152	8,613
Charge for the year	18,763	9,226	27,989
At 31 March 2007	25,224	11,378	36,602
<b>Net book value</b>			
At 31 March 2007	74,925	95,541	170,466
At 31 March 2006	19,148	6,456	25,604

### 13 Investment's

2007 £

Investment in subsidiaries

121,160

Investments in subsidiaries comprise:

Subsidiary Undertaking	Country of Incorporation	Class of Holding	Principal Activity	Percentage share capital held
Probability Games Corporation Ltd	England and Wales	Ordinary	Mobile Marketing, payment and gaming services	100%
Probability Games (Alderney) Ltd	Alderney, Channel Islands	Ordinary	Gambling services	100%
Probability Media Ltd	England and Wales	Ordinary	Dormant	100%
Mobile Payment Services Ltd	England and Wales	Ordinary	Dormant	100%
Probability Mobile Services Ltd	England and Wales	Ordinary	Dormant	100%

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

### 14 Debtors

#### Group

	2007 £	2006 £
Trade debtors	65,227	157,261
Other debtors	134,932	79,723
Prepayments and accrued income	99,389	81,717
Due within one year	299,548	318,701
Due in more than one year		
Deferred Tax	195,483	195,483

The nature of the evidence supporting the deferred tax asset include the internal financial forecasts.

#### Company

	2007 £	2006 £
Amounts owed from subsidiary undertakings	3,448,457	-

### 15 Creditors: amounts falling due within one year

#### Group

	2007 £	2006 £
Bank loans and overdrafts	-	18,895
Trade creditors	175,161	248,134
Other taxes and social security costs	48,697	130,570
Other creditors	88,141	51,415
Accruals and deferred income	87,937	104,888
	399,936	553,902

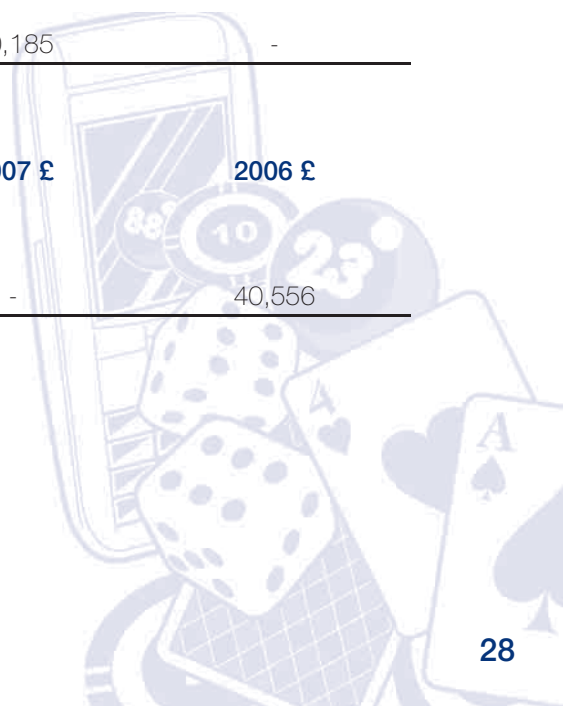
#### Company

Other creditors	20,185	-
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### 16 Creditors: amounts falling due after one year

#### Group

Other creditors	-	40,556
-----------------	---	--------



## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

### 17 Share capital

Authorised: 100,000,000 Ordinary shares of £0.01 each

2007 £  
1,000,000

Allotted, called up and fully paid: Ordinary shares of £1 each

2007 No	2007 £
17,969,927	179,699

On 14 June 2006 the Company issued 12,115,998 Ordinary Shares in exchange for the entire issued share capital of Probability Games Corporation Limited.

Prior to AIM admission, a bonus issue of 393,403 ordinary £0.01 shares was issued at par. During the year the Company issued 5,460,526 ordinary shares of £0.01 for £0.76 per share.

### 18 Share premium

At 31 March

2007 £	2006 £
3,568,744	-

### 19 Share based payments

The table below analyses the exceptional charge set out in Note 4 above.

Exercise Price (pence)	Value (pounds)	Charge £	Number of options granted during the year	Number of options expired during the year	Number of options held as at 31 March 2006
15.00	0.63	842,789	1,337,760		1,337,760
10.00	0.67	494,460	738,000	400,000	338,000
53.44	0.35	124,712	356,320		356,320
71.25	0.27	35,208	130,400		130,400
12.50	0.65	70,200	108,000		108,000
1.00	0	0	80,000		80,000
11.25-53.75	0.01	1,759	128,640		128,640
		1,569,127			

The share options, detailed above, were granted on 18th August 2006 and will be exercisable between Admission date and varying dates from 16th March 2007, 16th September 2008, 30th September 2008, 31st March 2008, 22nd July 2008 and either three and five years from the date of Admission and are not transferable.

No options were exercised and forfeited during the period. The option values were calculated with reference to the Black-Scholes option pricing model, taking into account the following input assumptions:

Share price	76.00
Exercise price	various
Expected volatility	39%
Option life	3 years
Expected dividends	0%
Risk free interest rate	5%

The volatility percentage is an estimate of the expected volatility in the share price for a junior media services company listed on AIM having regard to comparative companies, quantum of cash raised, targeted (institutional) investment group and risk profile.

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

Stock options were granted in 2006 under PGC and have been cancelled and then re-issued by the Company in the current year following the merger. These stock options were ascribed a Nil value and no expense was recorded in 2006, as PGC was without an identified investment target. With the merger of the Company and PGC in August 2006, these options were valued at £1,569,127 using the Black-Scholes option-pricing model.

### 20 Merger Reserve

	2007 £	2006 £
At 1 April	1,379,873	1,379,873
At 31 March	1,379,873	1,379,873

During the year, Probability plc acquired the entire share capital of Probability Games Corporation Limited ("PGC") by means of a share for share exchange. The share for share exchange occurred on 12 June 2006 when the share capital and share premium account of PGC amounted to £1,501,033. The nominal value of shares issued by the Company in exchange for the shares of PGC amounted to £121,160.

The merger adjustment for the years ended 31 March 2006 and 31 March 2007 therefore represents the difference between the value of the shares in PGC and the nominal value of shares issued in the share for share exchange.

### 21 Other reserves

	2007 £	2006 £
Share option charge	1,569,128	-
At 31 March	1,569,128	-

### 22 Profit and loss account

	2007 £	2006 £
At 1 April	(919,298)	(379,619)
Loss for the financial year	(3,719,134)	(539,679)
At 31 March	(4,638,432)	(919,298)

### 23 Related party transactions

During the year the company received advertising services from PR4 Limited for an amount of £3,500 (2006: £8,000) and web design services from Fortune Cookie (UK) Limited of £63,008 (2006: £Nil), companies in which R Ruparel is an advisor. No amounts were outstanding at the year end. A balance of £828 was owing to Charles Cohen at the year end.

### 24 Reconciliation of movement in shareholders' funds

	2007 £	2006 £
At 1 April	581,735	395
Loss for the financial year	(2,150,006)	(539,679)
Shares issued	3,627,283	1,121,019
At 31 March	2,059,012	581,735

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

### 25 Gross cash flows

#### Returns on investments and servicing of finance

Interest received	75,987	13,099
Interest paid	(25,026)	-
	50,961	13,099

#### Capital expenditure

Payments to acquire intangible fixed assets	(102,007)	(64,120)
Payments to acquire tangible fixed assets	(172,851)	(32,296)
	(274,858)	(96,416)

#### Financing

Other new loans	-	73,000
Issue of share capital	4,153,934	1,121,019
Expenses paid in connection with share issue	(526,650)	-
	3,627,284	1,194,019

26 Analysis of changes in net debt	At 1 Apr 2006	Cash flows	Non-cash changes	At 31 Mar 2007
	£	£	£	£
Cash at bank and in hand	572,285	1,098,496		1,670,781
Overdrafts	(18,895)	18,895		-
Total	553,390	1,117,391	-	1,670,781

### 27 Other financial commitments

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

	2007 £	2006 £
Operating leases which expire:		
Within one year	-	29,640
Within two to five year	96,930	-
	-	-



**PROBABILITY Plc**