REGISTERED NUMBER 06475845

Smarkets Limited Annual Report and Financial Statements

31 December 2019

smarkets

About Smarkets

Smarkets operates one of the world's largest regulated exchange platforms for betting and trading on sports and politics. Our software operates like a financial exchange, while our focus on price and technology means that we often have the best odds in the world on the biggest sporting and political events. Customers can use either the Smarkets exchange - for a sophisticated betting and trading experience - or our SBK sportsbook app for a simpler presentation of our market-leading prices.

Our mission is to make betting and trading on events fairer, and we believe that betting should be priced like a commodity, because it is one. Founded in 2008, Smarkets is an innovator in the industry, pioneering the use of financial technology in betting.

Our state-of-the-art platform is capable of processing very high volumes and has allowed us to maintain our industry-leading commission rates. Our platform is powered by sophisticated proprietary technology that has been built in-house by world-class engineers and this enables us to run a leaner and more efficient business than any of our competitors.

As an organisation, Smarkets is driving innovation in the workplace and currently employs over 110 individuals in a dynamic structure across our offices in London, Los Angeles and Malta.

2019 Highlights

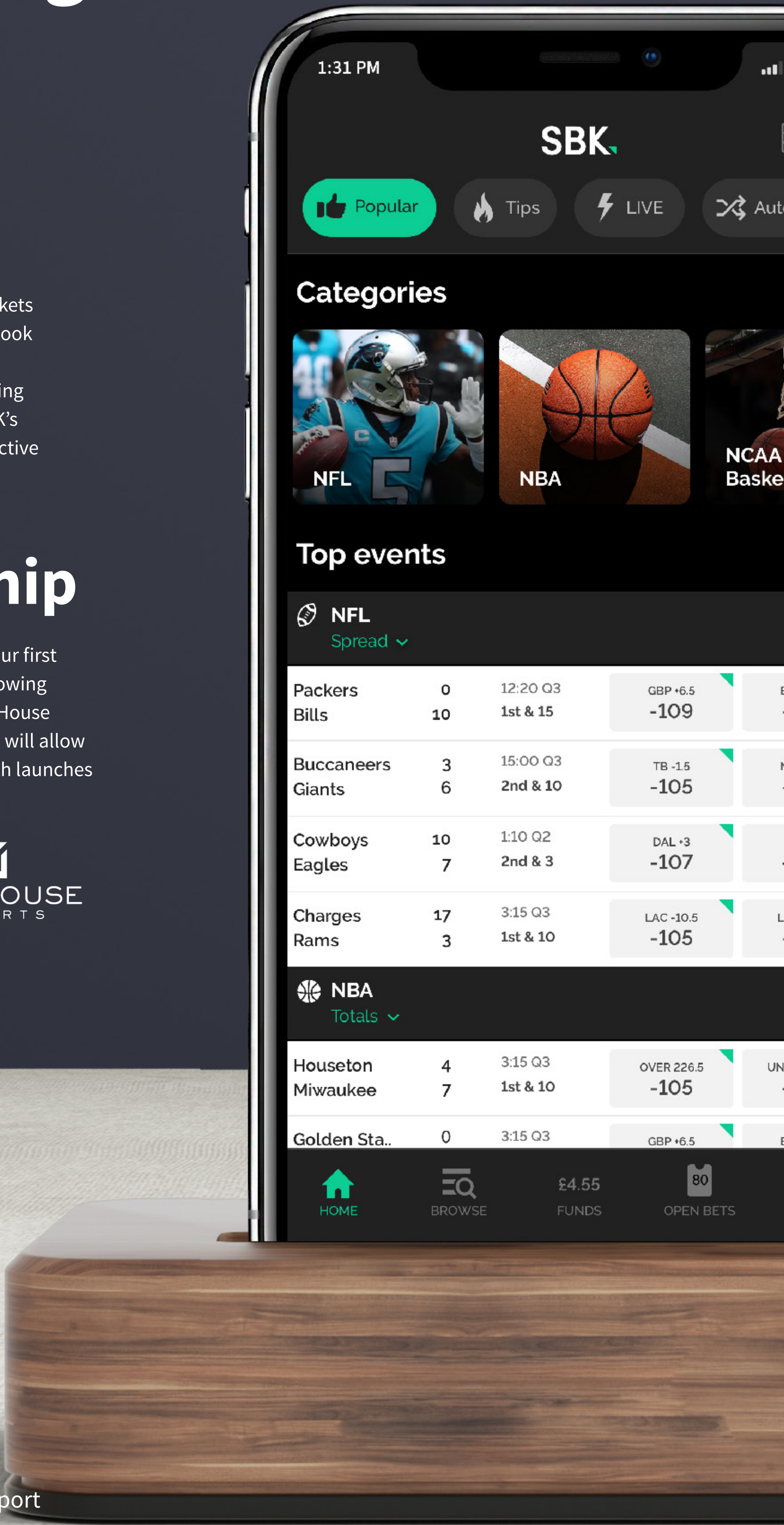
SBK Launch

In 2019 we fully launched our first new consumer product the launch of the Smarkets betting exchange in 2010. SBK is a sportsbook app powered by the exchange, meaning thatusers can experience our market-leading prices in a simpler sportsbook format. SBK's launch helped us grow average monthly active users by 10%..

US Partnership

Soon after launching SBK, we also made our first deal to take our platform to the rapidly growing American market. We partnered with Full House Resorts for a multi-million dollar deal that will allow us to operate in Colorado and Indiana, with launches in those markets expected in 2020.

smarkets FULL HOUSE RESORTS



Record-breaking months

In March 2019, we set new records for active users and revenue thanks to a successful Cheltenham Festival. Then, in April 2019, £76.5m was traded on the Grand National, the highest volume for a single event ever on Smarkets. Overall for the year, revenue climbed 61% when compared to 2018.

Cheltenham Festival

OVERALL TRADED VOLUME

£151,427,202 *New Record
10% up from 2018

20.4%

Just after the first race of the Festival we **broke our record** for concurrent logged-in users

136.4%

More daily active users on the Smarkets app compared to Cheltenham 2018

101% more profit

FROM A £10 STAKE ON ALL 28 WINNERS

TOTAL WINNINGS WITH SP

£3,550

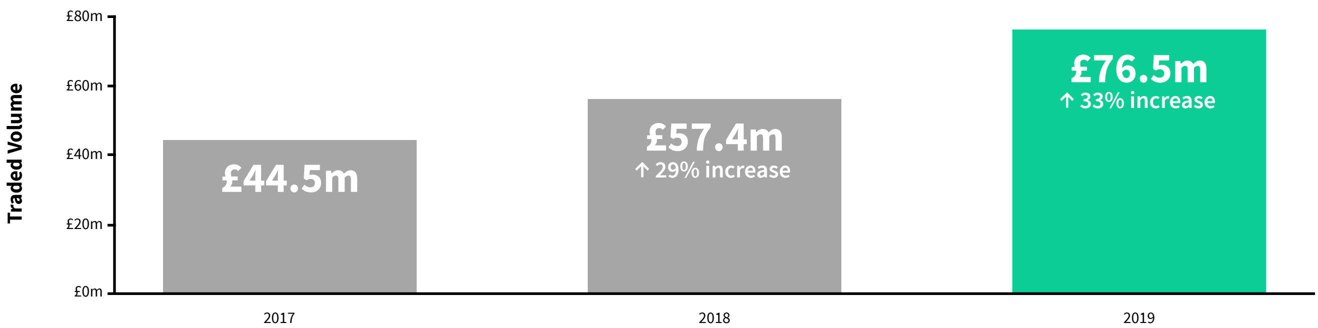
TOTAL WINNINGS WITH SMARKETS

£7,131

THAT'S A DIFFERENCE OF

£3,581

Grand National



Awards

Also in April, we were included in the Financial Times' FT1000 list of Europe's fastest-growing companies. It was the third year in a row we had made the list, and of those companies to appear every year since its inception, we placed fifth. Meanwhile, Smarkets was shortlisted for the 'Best Place to Work in Tech' at the Techies awards.

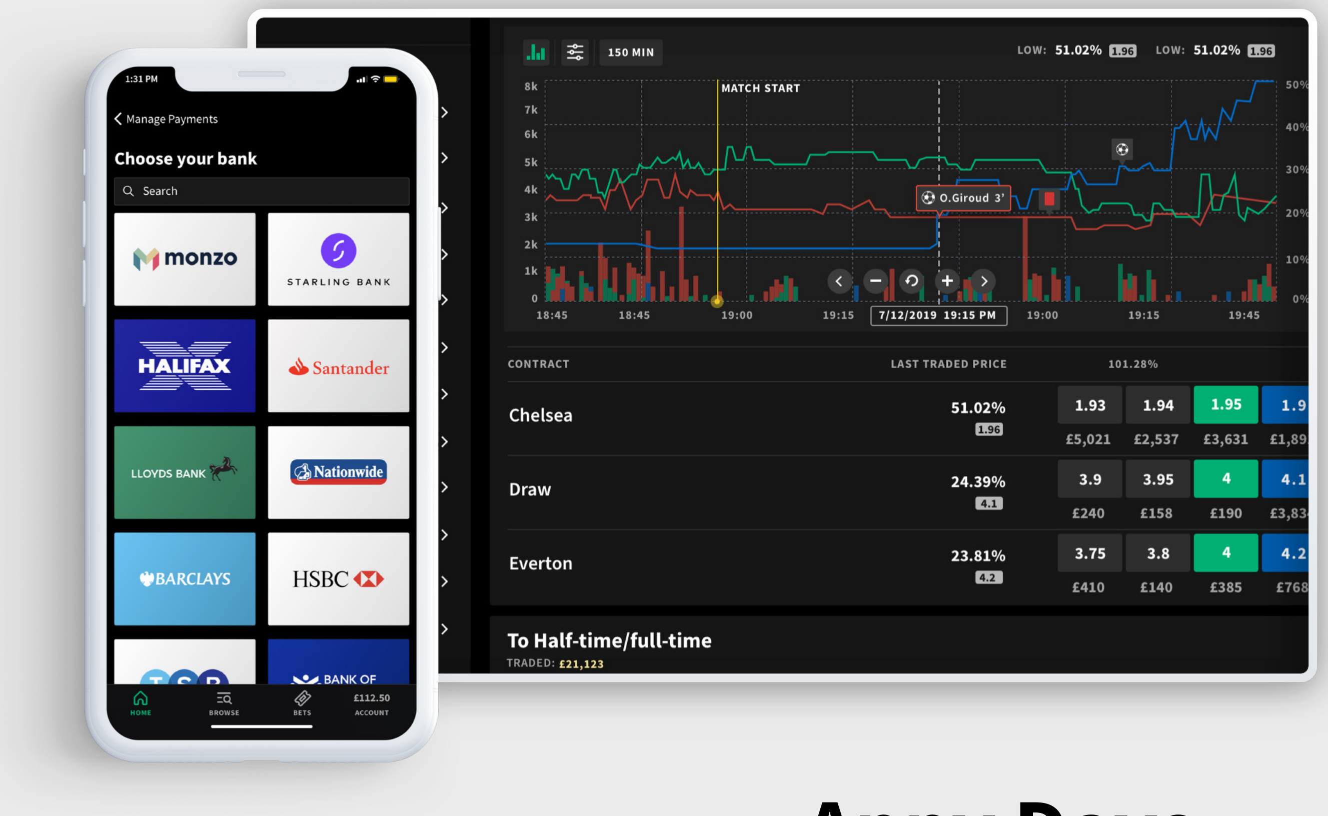
FT FINANCIAL TIMES statista 1000 Europe's Fastest Growing Companies 2019

the techies 2019 by techworld FINALIST

Leading the way with Open Banking

In 2019 we became one of the first betting operators to introduce an Open Banking payment method. For users, it meant faster and more secure withdrawals, while for us as a business it helped save money on transaction fees. A perfect example of how we focus on improving customer experience and reducing costs.

Elsewhere on the product side, we upgraded our best-in-class live price charts, allowing users to easily see high and low prices for each contract, as well as pan and zoom with ease. Also, we made huge improvements to our event data, including the introduction of summaries for finished horse races.



Appy Days

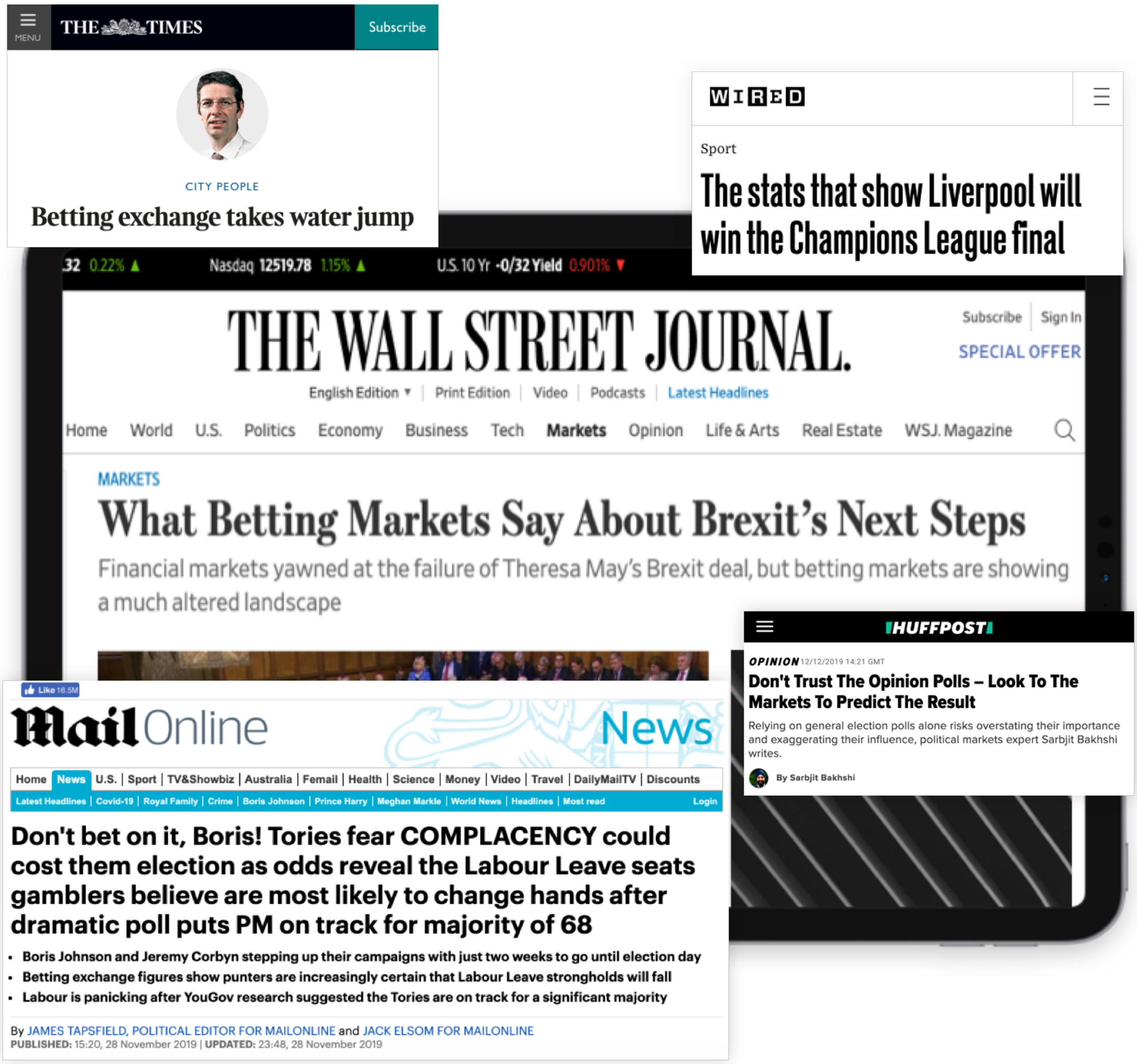
Our exchange app remains one of the highest-rated betting apps available, with 4.8* and 4.6* ratings at year end on iOS and Android respectively.

Global press coverage

2019 was a record year for media coverage, and we were featured and mentioned in top-tier publications across the world. Our market prices were included in reports by outlets such as Wall Street Journal, Bloomberg, and The Spectator, while our pioneering workplace culture was featured on BBC's primetime The One Show. September was a record month for media mentions, with our US partnership with Full House Resorts covered by The Times, Associated Press, and many more.

UK General Election

For the UK General Election in December, one story centred on Smarkets prices was the lead story on the Daily Mail's homepage - one of the most-visited websites - for a few hours, and we were referenced by the Mail on Sunday, HuffPost, and The Sun, among others. On the site, we produced a live-updating constituency map for users that visualised the latest forecasts from the hundreds of markets we ran on the election.



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"2019 was packed full of success stories at Smarkets: we grew revenue by 61% to just under £20m, user numbers went up 10%, and press coverage rose significantly. We also launched our new sportsbook app SBK and announced a multi-million-dollar partnership with Full House Resorts allowing us to offer online sports wagering in Indiana and Colorado. These two major achievements mean we can build on the success of Smarkets and use our superior technology and pricing to take on the big players in the UK retail and US markets with SBK. I can't wait to see what new heights these huge opportunities can take us to in 2020."

Jason Trost
CEO/Founder

Chief Executive Officer's Review

2019 was a year packed full of success stories at Smarkets. The headline achievement was the business growing after a formative 2018, with a 61% year-on-year surge in revenue. After prioritising volume growth over income in 2018, getting our revenue just shy of £20m in such a short space of time was fantastic, and even more impressive when you consider the challenging and increasingly competitive marketplace in which we operate. Adding £7.3m in revenue meant we could expand our operations and still function at a sustainable, break-even level in order to push for profitability once again in 2020.

Two major components of that push were secured in 2019. The company worked flatout to ensure an August launch of our new sportsbook app SBK, timed to coincide with the start of the English Premier League season. This was a company-wide effort that drew in product expertise, marketing prowess, and engineering skills from all three of our offices, and I'm super excited about stepping up customer acquisition in 2020 as we bring our industry-leading exchange prices and a tech-led social-betting approach to bear on the £2.6bn UK sportsbook market.

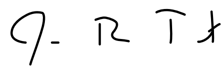
The development of SBK also allows us to move into the high-potential US market, and in September 2019 we announced a multi-million-dollar partnership with casino operator Full House Resorts, allowing us to offer online sports wagering in Indiana and Colorado in 2020. With our lean company set-up, superior technology, and focus on providing the best prices, we can make a huge impact against some of the big players in the American betting industry.

Whilst there were many positives in 2019, we registered an expected dip in trading volume due to moving more traders onto our Pro Tier commission band to help boost revenue streams, as well as the lack of a big summer football tournament. Nonetheless it's a key metric for our business and we are keen to expand it further in the coming year. We still managed to grow revenue significantly despite this and whilst continuing to offer 0% to customers of some of our premium affiliate partners. This helped us grow user numbers by 10% year on year. The implementation of the Pro Tier was a key part of our business's turnaround, and we introduced a new Select Tier in December to help us capture even more value from those traders who do not contribute to the overall ecosystem. This will help to further improve the bottom line as we forge ahead into new markets.

2019 was also a big year for us in terms of press coverage as we once again achieved a record amount of coverage. The political climate has helped us amplify our wide range of non-sport markets, and as someone with a real passion for politics I'm very excited about another year of strong brand awareness for Smarkets as a source of information with the US election in 2020.

I also want to commend our development teams on the product improvements we made throughout the year. We implemented Open Banking payments in July, one of the first betting operators to do so. This is yet another example of a focus on product that allows us to simultaneously reduce costs and improve customer experience, in this instance by lowering fees and shortening withdrawal times. We also enhanced our class-leading live charts on the exchange, and there is still no higher-rated betting app than Smarkets in the App or Play Store. An amazing achievement that I am immensely proud of, and one that shows that there is appetite for a different approach in an industry dominated by a few static companies often jostling for position and not thinking enough about customers.

Whilst 2020 presents an opportunity to build on the solid growth and progress made the year before, it has also brought new, unexpected challenges with the global coronavirus pandemic. Despite the unprecedented times the planet has endured, as an organisation we have adapted remarkably well, forging further into the mainstream UK sportsbook market and launching in the nascent, fast-growing US market too. I want to thank everyone who ensured 2019 was such a success for Smarkets, and to say how much I appreciate their enthusiasm and agility taking us to new heights in 2020.



Jason Trost
Chief Executive Officer

Group Strategic Report

How we operate and who we are

Smarkets Limited (the "Company") and its subsidiaries (together "Smarkets" or the "Group") own and operate an online betting exchange which enables users to set prices and bet against other traders, rather than against a bookmaker, on sporting and other events. An exchange offers buy and, unlike bookmakers, also sell prices, and these both continually change during the events themselves up until their conclusion. The platform is state of the art - secure, transparent, highly responsive and efficient, and with rapid access to deep resources of market data.

Online betting on sports, politics, and current affairs continues to be a popular and rapidly growing activity in the UK, and more recently in the US as a result of the May 2018 overturning of PASPA (Professional and Amateur Sports Protection Act of 1992) by the US Supreme Court. This decision means that all states can choose to legalise sports betting, whereas before it was mostly limited to only Nevada.

To remain competitive and in order to attract users, the Group has to offer a market-differentiable experience and provide a reliable and robust service. To meet these challenges, Smarkets has developed a website and mobile applications with an innovative underlying betting engine, which are each continually refined and evolving. In particular, the software engineering team at Smarkets works to find faster ways of handling the large volumes of customer, market and transaction data and making it accessible to the community, thus democratising event trading for all. Smarkets has also added a sportsbook-like app to its product offering with a modern and social interface aimed at recreational users in the UK and internationally.

Technology

Smarkets develops and maintains its own technology across the entire stack - from infrastructure and container orchestration, through proprietary layers of the event-data ingestion pipeline and exchange-order management architecture, accessed via public APIs, right up to our best-in-class web and mobile applications.

2019 saw a maturing of the platform whereby automation, reliability, performance, auto-scaling, instrumentation, international expansion and cost efficiency were all addressed. The result has been a solid and performant base upon which the product can be built.

The core exchange trading mechanism has seen improvements in latency and throughput of both order handling and market settling, and new capabilities have been introduced including new trading mechanics.

As we move into other territories, the notion of a user's jurisdiction has been taken into account throughout the backend. This has included integrations with new third-party providers, and attention has been paid to our market universe. We are ingesting more data from more sources, extracting more details with lower latency than ever before.

In the product space, Smarkets has continued its ability to iterate and innovate at pace, with the introduction of many new features including industry firsts such as Open Banking payment methods. Additionally, an entirely new product - SBK - was launched, harnessing the core functionality and richness of the existing platform, but with a different strategic focus and intent.

Business Model

Smarkets generates revenue from most customers by levying a transaction fee, or commission, which is paid on net winnings on individual markets. Thanks to our technology, we are able to offer what is still an industry-low flat commission rate of 2% and some bettors introduced from affiliate partners pay no commission at all. This represents exceptional value to our customers and, in turn, attracts more users and liquidity to our exchange.

For institutional customers who are connecting to the exchange through our API we have an alternative model to generate revenue. Some of these users contribute to the ecosystem by seeding markets and are on our Market Making Tier, paying 20% commission on their lifetime profits. Some others, with no obligation to market make, go onto our Pro Tier where 1% commission is charged on winnings or losses per each individual bet that settles. A customer whose account exceeds £25,000 in net profit over the previous 12 calendar months, whether trading through our API or not, goes onto our Select Tier where 3% commission is charged on winnings or losses per each individual bet that settles, unless that account is providing value by seeding a large number of markets on the exchange and is thus already on the Market Making Tier.

The Group, through its 100%-owned subsidiary Hanson Applied Sciences Limited, also provides liquidity on the exchange by entering into algorithmic trades on various markets to enhance the user experience and for profit-making purposes. The positions arising from these activities are closely risk managed. As we grow, our aim is to offer better prices and further enhance the liquidity of existing and new markets.

Whilst Smarkets has a diverse customer base by channel and by nature, a significant proportion of our revenue is currently derived from institutional traders or market professionals. Our products also appeal to sports fans and recreational punters, and our sportsbook app SBK is specifically aimed at bringing our market-leading pricing to the mainstream market, increasing the amount of volume from those more recreational users. The overall customer base is expanded through a number of delivery channels including, notably, our affiliate network, a data-driven approach to digital advertising, and carefully selected agency partners who focus on customer acquisition.

In 2019, we supercharged our marketing team to attract new users not only for our exchange product but also the more casual bettor with our sportsbook app SBK. Irrespective of the delivery channel or product, Smarkets continues to attract new users by offering unparalleled value.

Market Context

Remote gambling (online) is the largest industry sector in the UK with Gross Gambling Yield (“GGY”) of £5.5bn growing 3.8% year on year according to the latest UK Gambling Commission Industry Statistics, October 2018 - September 2019. The size and growth of the remote sector, despite an overall decrease in GGY for the UK gambling industry over the same period, demonstrates the appetite for online and digital platforms. This presents an opportunity for technology companies like Smarkets to acquire market share through innovation. Our proprietary technology platform allows us to deliver faster solutions than our competitors and offer an enhanced customer experience as a result. The total remote betting industry GGY was £2.1bn, an increase of 4.3%, which further illustrates the growing opportunity for online-only companies like Smarkets.

The introduction of our new sportsbook app SBK allows us to scale our success with the exchange by properly addressing the mainstream market, which is approximately 12 times the size of the exchange industry in Great Britain, pitting our superior pricing against industry leaders such as Bet365 and Skybet and greatly increasing our ability to generate revenue.

The Group, through its subsidiary Smarkets (Malta) Limited, holds licences to operate in the UK, Malta and Ireland, as well as the US states of Colorado and Indiana. In 2019, 93% of betting volume was generated in the UK where the main competition is provided by the exchange-industry leader Betfair, as well as other smaller exchange operators such as Betdaq and Matchbook. We look forward to a launch of SBK in the exciting and high-potential US market in 2020, providing another opportunity to grow Group revenues in new markets.

Financial Review

The Group made a loss before taxation of £672,000 in the year ended 31 December 2019 which was a significant improvement upon the loss of £9,016,000 made in the previous year.

An overview of the 2019 performance is as follows:

	2019	2018	2017	Increase 2018/19
	£000	£000	£000	
Average Monthly Active Traders	32,040	29,199	25,309	9.7%
Trading Volume (bets placed)	3,795,000	4,561,000	3,117,000	(16.8)%
Revenue	19,267	11,942	20,589	61.3%
Cost of Sales	(4,405)	(4,642)	(3,388)	
Gross Profit	14,862	7,300	17,201	135.9%
Administrative Expenses	(15,621)	(16,255)	(10,722)	
Other income and expense	87	61	10	
(Loss)/profit before tax	(672)	(9,016)	(6,489)	
Customer deposits held	27,124	28,785	16,829	(5,8)%

Customer Activity: In 2019, monthly active users on the Smarkets betting exchange rose 10% from 2018, very strong growth especially considering that 2018 featured a FIFA World Cup tournament, usually the biggest event of any year in which it occurs. The 2019 performance was driven by the successful continuation of our Premier League offer in the first half of the year, together with a strong Cheltenham Festival promotion in March. Further, at the end of 2019, we launched our biggest-ever promotion for existing users on Premier League games, which saw 26,500 customers opt in, and in December alone we had over 35,000 active users, which was 18% up on December 2018 and 60% up on December 2017.

The increase in customer numbers occurred whilst we reduced Smarkets' advertising and marketing costs (including affiliate costs) by over 30%, from £3.3m in 2018, when there was major investment in user retention, to £2.2m in 2019, which saw a greater focus on improving our marketing systems and processes, as well as cost efficiency generally.

In August, we soft launched our SBK product for mainstream sports fans and recreational punters. We limited marketing activity on this in 2019 in order to make improvements and gather feedback from users. We expect to focus on driving SBK customer growth and betting activity during 2020.

Revenues: During 2019, we introduced additional tiers to our commission structure for higher volume traders as well as continuing to offer zero percent commission for major events. In combination with the increased customer numbers and volume from more casual bettors, this resulted in commission revenue remaining fairly steady at £7.1m, slightly down from £7.4m in 2018. However, net revenue from betting activity improved at £13.2m up from £5.6m in 2018 mainly as a result of much more favourable outcomes from major events such as Cheltenham, and improvements made to trading algorithms. As a result, our total revenue increased by 57% to £20.3m in 2019 up from £12.9m in 2018.

Costs: Total costs of the Group comprise Cost of sales, which includes betting taxes, payment service provider costs for processing customer deposits, and affiliate costs, and Administrative expenses, which largely comprise employee and office-related costs.

Cost of sales fell 5% from £4,642,000 in 2018 to £4,405,000 largely due to economies from rationalisation of the payment service provider arrangements. However, Administrative expenses, fell to £15,621,000 from £16,255,000 in 2018. This fall was largely due to the reduced advertising and external marketing spend mentioned under Customer activity above in part offset by the effect of staff salary increases which took effect in mid-year.

Profitability: As a result of the factors discussed, the Group made a loss before taxation of £672,000 for 2019 as compared to a loss of £9,016,000 for 2018. As a result of a catch up in research and development tax credit claims for 2017 and 2018, the loss after taxation was £516,000 up from a loss of £9,199,000 in 2018.

Balance sheet: Total assets of the Group at 31 December 2019 were £47.5million compared to £46.5million at the previous year-end. Included in these balances are segregated short-term bank accounts which hold the monies deposited by customers to allow them to make bets which fell slightly to £27.1million from £28.8million at the previous year-end. Other assets were slightly increased due to the receipt of accrued research and development tax credit claims post year end as well as prepayments for certain intangible market access rights for the expected business launch in the United States in 2020.

Capital: Shareholders' Equity at 31 December 2019 was £8.8million as compared to £9.3million at the previous year end, with the decrease largely arising from the loss for the period.

The capital position remained strong at 31 December 2019 and able to absorb the possibility of future series of unexpectedly adverse betting outcomes as happened in 2018. Further, the Group was in a position to leverage the higher user numbers as a basis for returning to profitability and would, other things being equal, have been able to conclude that the Group would be able to fully finance its operations with adequate contingency available for unexpected events for the foreseeable future.

Effect of Covid-19 pandemic: As discussed under Subsequent Events in note 23, in the period subsequent to 31 December 2019, an outbreak of Coronavirus ("Covid-19") developed into a global pandemic. The Group was adversely affected by the resulting postponement and cancellation of sporting events for several months in mid-2020 most notably in Europe, which had an adverse impact on volumes and revenues. During this period, management were able to take advantage of Government-sponsored schemes, as well as implementing other cost containment actions such as the temporary closure of offices which mitigated Group expense outflows for the period.

The holding of sporting events largely returned to normal in mid-2020, albeit without the presence of spectators, and betting volumes and revenues recovered accordingly. Management have revised their forecasts of future profitability and capital adequacy of the Group and the Company, including consideration of the potential impact of any further pandemic-related restrictions on sporting activities. In particular, management considered and modelled capital and liquidity scenarios in which further sporting event postponements or cancellations occurred, volatility in revenue from betting activity increased and Government support programmes were reduced.

As a result of this exercise, management has no expectation that under any reasonable scenario, the continuing effects of the pandemic will render the financing of the Company and the Group unable to fully finance its operations with adequate contingency available for unexpected events for the foreseeable future.

Risks

The Company maintains a register of risks that may impact operations or future activities and results. Key risks identified include:

Technology: Smarkets is primarily a technology company, with all bets taking place digitally. This exposes the business to the risk of technological failure for whatever reason. To mitigate this, the group invests in its technical workforce and the robustness of its technology and delivery mechanisms, including disaster recovery.

Regulatory: License requirements and other regulatory changes can affect the ability of the Group to conduct business in particular jurisdictions or by limiting activities. Further, regulation imposed on Group companies or customers can increase compliance and regulatory maintenance costs, and thus impact profits. To mitigate these risks, the Group monitors key markets for regulatory changes, and works with regulators in a proactive fashion to facilitate adherence to new requirements as they evolve.

Events: The Group derives part of its revenues from the outcomes of sporting events, with some outcomes being more favourable than others. As such, poor results can negatively impact profits over a reporting period. The level of exposure to events is actively monitored and managed on a real-time basis throughout the day by risk managers who adjust parameters and hedge positions when it is considered prudent to do so.

Pandemic: In the event of a global pandemic, there is a high likelihood that sporting events might be halted, held behind closed doors, and even cancelled. Since the Group relies heavily on the existence of sporting events, any global cessation of sports or events would affect revenue significantly.

Competition: The online betting market has many providers and the Smarkets customer base and plans for growth are at risk from competitors attracting existing customers and from not being able to attract new customers.

Taxation: Governments may change their approach to the taxation of businesses either generally or with regards to betting markets specifically, and such changes in individual jurisdictions could have a material impact on the cash-flow and profitability of the Group.

People: Although management prioritises staff incentives, the working environment, and a progressive, autonomous company culture, there remains a risk that Smarkets may not be able to continue to attract or retain key employees should circumstances change or attitudes to the Group or betting industry change.

Geopolitical: Smarkets is exposed to developments in the European Union ("EU") as predominantly all of the customer base and most of the workforce are based in countries that are members of the EU. It remains unknown what the wider regulatory and legal consequences of the UK leaving the EU will be and whilst the risk to Smarkets is mitigated to an extent by the holding of licences both in the UK and elsewhere in the EU (including Malta and Ireland), there remains a risk that the activities of Smarkets might be affected under such circumstances.

Reliance on third parties: Smarkets is reliant on certain third-party services, such as those provided by financial institutions, banking and payment suppliers to provide its services. Any withdrawal of such services can have an impact on the Group's ability to operate efficiently. Financial: The Group is exposed to credit risk, liquidity risk, market risk (including open-betting-position risk), foreign currency risk and interest-rate risk arising from its day-to-day operations. These are discussed further in note 20 to the financial statements.

Financial: The Group is exposed to credit risk, liquidity risk, market risk (including open-betting-position risk), foreign currency risk and interest-rate risk arising from its day-to-day operations. These are discussed further in note 20 to the financial statements.

Responsible Gambling

Smarkets takes its commitment to ensuring the maintenance and development of our platform through responsible betting activities very seriously. Therefore, we have invested and continue to invest in technological innovations to facilitate us in this effort. In particular, we have fully established:

- A specialist KYC ('Know Your Customer') team responsible for verifying the age and identity of customers, including their nationality and country of residence, as well as reviewing links to anyone identified as having a problem with their gambling.
- Various machine-learning-based programmes that review customer behaviour and identify issues such as irresponsible gambling, and other suspicious activity such as credit card fraud. These use models such as gradient-boosted decision trees to flag suspicious or unusual behaviour.
- Customer driven deposit and loss limits with "cooling-off" periods that have to be observed before they can be increased.
- "Time-out" options for customers to take a short break from their gambling and reassess their choices, as well as self-exclusion tools for customers who would like their account closed for a minimum of six months or over a longer period.
- Responsible gambling training for customer-facing staff.
- Information sources directing employees and customers to organisations that can help people work through their concerns.

People

Recruitment and retention: Recruiting, developing, and retaining talented and motivated technical and non-technical employees are management priorities. It is essential in a competitive market that we continue to recruit engineers, researchers, mathematicians, quantitative analysts and other specialists to help us to continue to evolve and add fresh perspectives to our innovations. Currently, over 60% of staff is technical, with many graduating from top universities. Since moving all our recruiting efforts in house in 2018 to streamline costs we have managed to capture global talent ahead of the curve and supercharge growth.

Diversity: We pride ourselves on having a workforce with employees from over 30 nationalities who have made Smarkets their home. Our hiring efforts are aimed at capturing the brightest talent from around the world, irrespective of gender, age, disability, ethnicity, nationality, sexual orientation, and religion or other beliefs. Our transparent salary structure helps combat any bias regarding pay gaps.

Culture: Organizational values are guiding principles. They ensure clarity, consistency and accountability. They help us understand what it feels like to be part of our culture and at Smarkets, we have a rare degree of transparency. In 2019, after a series of workshops with employees, we embedded our four core values. These are: Openness, Innovation, Ownership and Nurture. Trust remains the driving force without which such initiatives would not be possible. The open culture makes everyone more involved in the Company, giving them a clearer path towards what they are working on and ensuring people are committed and challenged. In 2019, we worked on cross country collaboration encouraging better communication between our three offices ahead of the launch of our sportsbook product. The results meant that employees felt more connected globally.

By order of the Board,

Jason Trost
Chief Executive Officer

J. R. T

21 December 2020

Group Directors' Report

The Board of Directors (the "Directors") present their report and the audited financial statements for the year ended 31 December 2019.

The Group Directors' Report should be read in conjunction with the other sections of this Annual Report including the Group Strategic Report on page 9 in which the principal activities of the Group and those factors likely to affect its future development, together with a description of its financial position are described.

The following also form part of this report:

- The information relating to financial instruments, as provided in the notes to the financial statements.
- The related party transactions as set out in the notes to the financial statements.
- An indication of likely future developments in the business and details of significant events which have occurred since 31 December 2019.

Directors

The Directors who held office throughout the year and the preceding year were as follows:

Jason Reinert Trost	*Chief Executive Officer and Company Secretary*
Robert Simon Dighero	*Resigned 17 July 2019*
Vicente Vento	*Resigned 17 July 2019*

Share Capital

During the year ended 31 December 2019, 17,056 Ordinary shares (2018 – 3,978 Ordinary shares) were issued as a result of the exercising of share options. There were no changes to the authorised share capital of the Company during the period.

Dividends

The directors do not recommend the payment of a dividend.

Political Contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year.

Research and Development

In developing the online betting exchange platform discussed in the Group Strategic Report on page 11, the Group has continually to refine and develop the underlying software and infrastructure that supports its operation. In particular, the Company's technical development team has to continually work to find innovative ways of handling the increasingly large volumes of customer, market and transaction data and making it accessible via its website to the user community.

Subsequent Events

Events occurring after the reporting date, including the impact of the Coronavirus pandemic, are discussed in note 23 to the financial statements.

Annual Reports and Accounts

The Directors are aware of their responsibilities in respect of the Annual Report. The Directors consider that the Annual Report taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Statement of Directors' Responsibilities appears on page 17.

Going Concern - Basis of preperation of Accounts

The group had net assets of £8.8m (2018 - £9.3m) and net current assets of £6.2m (2018 - £7.9m) at 31 December 2019. Notwithstanding a loss for the year then ended of £0.5m (2018 - £9.2m) and a cash flow of

£1.6m (2018: inflow of £2.6m), the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate as outlined below.

As discussed in the Strategic Report, the Group was adversley affected by the outbreak of Covid-19 and, in particular, the resulting postponement and cancellation of sporting events for several months in mid-2020 most notably in Europe, which had an advers impact on volumes and revenues. The holding of sporting events largely returned to normal in mid-2020, albeit without the presence of spectators, and betting volumes and revenues recovered to pre-pandemic levels.

During the period of postponement and cancellation of events, management were able to take advantage of Government sonsored schemes, as well as implementing other cost containment actions such as the temporary closure of offices which mitigated Group expense outflows for the period. Despite this, total equity of the Group, which at 31 December 2019 was £8.8m, fell to £5.5m largely as a result of the effect on commision income of the reduced volumes.

Once sporting events recommenced, business rebounded which was possible as Smarkets is an online exchange. The subsequent Government interventions, such as lockdowns, have not impacted the volumes and commision income levels achieved, and these have exceeded those of the equivalent months in 2019.

The Directors have prepared cash flow forecasts for the period to December 2021, which indicate that, taking account of reasonably possible downsides, the Company will have sufficient finds to meets its liabilities as they fall due for that period.

The principal risk to the Group's continued operations remains the possibility of further pandemic-related curtailments in sporting activities. Whilst there have been no indications of any further such curtailments, management's downside forecast is prudent and includes the following key assumptions:

- Decrease in revenue from further sporting event postponements or cancellations (below levels achieved in the most recent November lockdown period)
- No volume increase from 2020 postponed events
- Increased volatility in revenue from betting activity equivalent to worst individual month performance previously achieved
- Strategic expenditure relating to expansion into new markets, without any corresponding upsides from potential increases in revenue
- A reduction in Government support programmes.

None of the scenarios modelled resulted in any expectation that management would need to take extreme mitigating action, such as significant staff reductions in order to keep the business operating. Further, it should be noted that the Group has no structural borrowings other than the office leases, so there remains potential flexibility in financing.

As a result of this exercise, management has therefore concluded that there is no reasonable scenario where the continuing effects of the pandemeic will render the financing of the Company and the Group inadequate; nor where the Group and Company will not continue in operational existence in the forseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual financial statements and have not recognised any adjustments which might be necessary if this basis were inappropriate.

Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Group Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board,

Jason Trost
Chief Executive Officer

J. R. T.

Commodity Quay, 7th Floor
St Katherine Docks
London
E1W 1AZ

21 December 2020

Statement of Directors' Responsibilities in respect of the Strategic Report, Directors' Report and the financial statements

The Directors are responsible for preparing the Strategic Report, Directors' Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs as adopted by the EU") and applicable law, and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law ("UK Generally Accepted Accounting Practice"), including FRS 101 Reduced Disclosure Framework.

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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Independant auditor's report to the members of Smarkets Limited

Opinion

We have audited the financial statements of Smarkets Limited ("the Company") for the year ended 31 December 2019 which comprise the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Balance Sheet and Company Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertanties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Directors, such as related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the Company or to cease their operations, and as they have concluded that the group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the group's business model, including the impact of Brexit, and analysed how those risks might affect the group and Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the Company will continue in operation.

Other Information

The Directors are responsible for the Group Strategic Report and the Group Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Group Strategic Report and the Group Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Group Strategic Report and the Group Directors' Report;

- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

We have nothing to report in these respects.

Directors' responibilities

As explained more fully in their statement set out on page 17, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at

www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Melanie Mantel

Melanie Mantel (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

23 December 2020

Consolidated Income Statement and Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

	Note	2019	2018
		£000	**£000**
Revenue	2	**19,267**	**11,942**
Cost of sales		**(4,405)**	**(4,642)**
Gross profit		**14,862**	**7,300**
Other operating income	3	**161**	**143**
Administrative expenses		**(15,621)**	**(16,255)**
Operating loss	4	**(598)**	**(8,812)**
Financial income	7	**136**	**46**
Financial expenses	7	**(210)**	**(250)**
Net financial expense		**(74)**	**(204)**
Loss before tax		**(672)**	**(9,016)**
Taxation	8	**156**	**(183)**
Loss for the year		**(516)**	**(9,199)**
Other comprehensive income for the year, net of income tax		**-**	**-**
Total comprehensive loss for the year		**(516)**	**(9,199)**

All income and expenditure related to continuing operations of the Company.
The notes on pages 25 to 50 form an integral part of these financial statements.

Consolidated Balance Sheet

as at 31 December 2019

	Note	2019	2018
		£000	**£000**
Non-current assets			
Property, plant and equipment	9	**4,352**	**4,916**
Intangible assets	10	**1,546**	**40**
		5,898	**4,956**
Current assets			
Tax receivable	8	**4,869**	**2,887**
Other financial assets	12	**39**	**70**
Trade and other receivables	13	**1,435**	**1,628**
Cash and cash equivalents (on behalf of customers: £27,124, 2018 - 28,785)	14	**35,239**	**36,980**
		41,582	**41,565**
Total assets		**47,480**	**46,521**
Non-current liabilities	15	**(3,315)**	**(3,568)**
Current liabilities			
Trade and other payables (in relation to customers: £27,124, 2018 - 28,785)	16	**(30,531)**	**(31,845)**
Tax payable		**(4,724)**	**(1,719)**
Other financial liabilities	12	**(107)**	**(109)**
		(35,362)	**(33,673)**
Total Liabilities		**(38,677)**	**(37,241)**
Net assets		**8,803**	**9,280**
Equity attributable to equity holders of the Parent			
Share capital	19	**13**	**13**
Capital redemption reserve		**2**	**2**
Share premium		**3,791**	**3,772**
Retained earnings		**4,997**	**5,493**
Total equity		**8,803**	**9,280**

The notes on pages 25 to 50 form an integral part of these financial statements.
These financial statements were approved by the Board of Directors on 21 December 2020 and were signed on its behalf by:

Jason Trost
Director
Company registered number: 06475845

Consolidated Statement of Changes in Equity

	Share capital	Capital Redemption	Share premium	Retained Earnings	Total Equity
	£000	**£000**	**£000**	**£000**	**£000**
Balance at 1 January 2018	13	2	3,758	14,603	18,376
Total comprehensive income for the year					
Loss for the year	-	-	-	(9,199)	(9,199)
Exchange movements	-	-	-	7	7
Total comprehensive loss for the period	-	-	-	(9,192)	(9,192)
Total transactions with owners of the company					
Issue of shares (note 19)	-	-	14	-	14
Share based payment transactions (note 18)	-	-	-	82	82
Total transactions with owners of the company	-	-	14	82	96
Balance at 31 December 2018	13	2	3,772	5,493	9,280
Balance at 1 January 2019	**13**	**2**	**3,772**	**5,493**	**9,280**
Total comprehensive income for the year					
Loss for the year	-	-	-	(516)	(516)
Exchange movements	-	-	-	(14)	(14)
Total comprehensive loss for the period	-	-	-	(530)	(530)
Total transactions with owners of the company					
Issue of shares (note 19)	-	-	19	-	19
Share based payment transactions (note 18)	-	-	-	34	34
Total transactions with owners of the Company	-	-	19	34	53
Balance at 31 December 2019	**13**	**2**	**3,791**	**4,997**	**8,803**

The notes on pages 25 to 50 form an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2019

	Note	2019	2018
		£000	**£000**
Cash flows from operating activities			
Loss for the year		**(516)**	**(9,199)**
Adjustments for:			
Depreciation and amortisation	9,10	**989**	**955**
Share option expense		**34**	**82**
Net financial expense		**74**	**204**
Effect of foreign exchange movements		**63**	**35**
Taxation	8	**(156)**	**183**
		488	**(7,740)**
Decrease/(increase) in trade and other receivables		**192**	**(28)**
Decrease in other financial assets		**30**	**50**
(Decrease)/increase in trade and other payables		**(1,238)**	**12,888**
(Decrease)/increase in other financial liabilities		**(1)**	**101**
		(529)	**5,271**
Tax recovered/(paid)		**1,179**	**(1,484)**
Net cash from operating activities		**650**	**3,787**
Cash flows from investing activites			
Interest recieved		**136**	**46**
Acquisition of property, plant and equipment	9	**(67)**	**(448)**
Acquisition of intangible assets	10	**(1,507)**	**-**
Net cash from investing activities		**(1,438)**	**(402)**
Cash flow from financing activities			
Proceeds from the issue of share capital	19	**19**	**14**
Additions to non-current lease liabilities, net of repayments, etc		**(659)**	**(527)**
Interest paid		**(210)**	**(250)**
Net cash from financing activities		**(850)**	**(763)**
Net increase in cash and equivalents		**(1,638)**	**2,622**
Cash and cash equivalents at 1 January (on behalf of customers: £27,124, 2018 - £28,785)			
Effect of foreign exchange movements		**(103)**	**(25)**
Cash and cash equivalents at 31 December	14	**35,239**	**36,980**

The notes on pages 25 to 50 form an integral part of these financial statements.

Notes to the Consolidated Financial Statements

(forming part of the financial statements)

1 Accounting policies

Smarkets Limited (the “Company” or the “Parent”) is a private company incorporated, domiciled and registered in England in the UK. The registered number is 06475845 and the registered address is Commodity Quay, 7th floor, St. Katharine Docks, London, E1W 1AZ.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the “Group”). The parent company financial statements present information about the Company as a separate entity and not about its group.

The Group consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”). The Company has elected to prepare its Parent company financial statements in accordance with FRS 101; these are presented on pages 53 to 64.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group consolidated financial statements.

The preparation of financial statements in conformity with Adopted IFRSs requires management to exercise its judgement in the process of applying the Company’s accounting policies. However, the Directors have not had to make any judgements resulting in a material financial impact on the financial statements as a result of the application of these accounting policies.

1.1 Change in accounting policies

The Company adopted IFRS 9 Financial Instruments in the prior year financial statements.

No amendments arising from the implementation of this Standard have affected the Company’s previously published financial position.

1.2 Measurement convention

The financial statements are prepared on the historical cost basis except that derivative financial instrument assets and liabilities are stated at their fair value.

1.3 Going concern - Basis of preperation of Accounts

The group had net assets of £8.8m (2018 - £9.3m) and net current assets of £6.2m (2018 - £7.9m) at 31 December 2019. Notwithstanding a loss for the year then ended of £0.5m (2018 - £9.2m) and a cash flow of £1.6m (2018: inflow of £2.6m), the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate as outlined below.

As discussed in the Strategic Report, the Group was adversley affected by the outbreak of Covid-19 and, in particular, the resulting postponement and cancellation of sporting events for several months in mid-2020 most notably in Europe, which had an advers impact on volumes and revenues. The holding of sporting events largely returned to normal in mid-2020, albeit without the presence of spectators, and betting volumes and revenues recovered to pre-pandemic levels.

During the period of postponement and cancellation of events, management were able to take advantage of Government sonsored schemes, as well as implementing other cost containment actions such as the temporary closure of offices which mitigated Group expense outflows for the period. Despite this, total equity of the Group, which at 31 December 2019 was £8.8m, fell to £5.5m largely as a result of the effect on commision income of the reduced volumes.

Once sporting events recommenced, business rebounded which was possible as Smarkets is an online exchange. The subsequent Government interventions, such as lockdowns, have not impacted the volumes and commision income levels achieved, and these have exceeded those of the equivalent months in 2019.

The Directors have prepared cash flow forecasts for the period to December 2021, which indicate that, taking account of reasonably possible downsides, the Company will have sufficient finds to meets its liabilities as they fall due for that period.

The principal risk to the Group's continued operations remains the possibility of further pandemic-related curtailments in sporting activities. Whilst there have been no indications of any further such curtailments, management's downside forecast is prudent and includes the following key assumptions:

- Decrease in revenue from further sporting event postponements or cancellations (below levels achieved in the most recent November lockdown period)
- No volume increase from 2020 postponed events
- Increased volatility in revenue from betting activity equivalent to worst individual month performance previously achieved
- Strategic expenditure relating to expansion into new markets, without any corresponding upsides from potential increases in revenue
- A reduction in Government support programmes.

None of the scenarios modelled resulted in any expectation that management would need to take extreme mitigating action, such as significant staff reductions in order to keep the business operating. Further, it should be noted that the Group has no structural borrowings other than the office leases, so there remains potential flexibility in financing.

As a result of this exercise, management has therefore concluded that there is no reasonable scenario where the continuing effects of the pandemeic will render the financing of the Company and the Group inadequate; nor where the Group and Company will not continue in operational existence in the forseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual financial statements and have not recognised any adjustments which might be necessary if this basis were inappropriate.

1.4 Basis for consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same was as unrealised gains, but only to the extent that there is no evidence of impairment.

1.5 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations are translated to the Group's presentational currency, Pound Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling interest as appropriate.

1.6 Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

a. they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

b. where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.7 Non-derivative financial instruments

The Group recognises financial assets at either Amortised cost, Fair value through other comprehensive income ("FVOCI") and Fair value through profit and loss ("FVTPL"). The classification of financial assets is generally based on the business model on which a financial asset is managed and its contractual cash flow characteristics.

Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets (other than trade receivables without a significant financing component) and financial liabilities are initially measured at fair value plus, for an item not measured at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

On initial recognition, a financial asset is classified as being measured at either Amortised cost, FVOCI – debt investment, FVOCI – equity investment or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and management does not designate that it should be measured at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For financial assets meeting these criteria which includes trade receivables and cash and cash equivalents, subsequent measurement of the amortised cost uses the effective interest method reduced by impairment losses.

Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss. Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is measured at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated by management as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities, which includes trade and other payables, are subsequently measured at amortised cost using the effective interest method, and interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legally enforceable right to set off the amounts and it intends to either settle them on a net basis or to realise the asset and settle the liability simultaneously.

Ordinary share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, net of tax effects, are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12 Income taxes.

1.8 Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

1.9 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets are recognised and measured as described in note 1.11.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives are as follows:

Leasehold property	Life of the lease
Leasehold improvements	10 years or the remaining life of the lease, if shorter
Computer equipment	3 years
Fictures and fittings, including office equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.10 Intangible assets

Expenditure on internally generated software, goodwill and other intangibles is recognised in the income statement as an expense as incurred.

Expenditure on research activities is recognised in the income statement as an expense as incurred.

All intangible assets acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the intangible assets.

The estimated useful lives are as follows:

Access intangibles	Contractual period of the market access rights granted
Other intangibles	3 years

Amortisation methods, useful lives and residual values are reviewed at each balance sheet date.

1.11 Leases

At inception of a contract, the Group assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantively all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

At the commencement of the lease term, the Group recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date. Any initial direct costs of the lessee are added to the amount recognised as an asset. The asset so recognised is depreciated on the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate as the discount rate. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

1.12 Impairment excluding deferred tax assets

Financial assets (including receivables)

The Company recognises loss allowances for Expected Credit Losses ("ECLs") on financial assets at amortised cost.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset. In the case of interest free financial assets, such as trade receivables, ECLs are not discounted. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Loss allowances are measured on either of the following bases:

- 12-month ECLs - these are ECLs that result from possible default events within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months); and
- lifetime ECLs - these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances for trade receivables without a significant financing component and contract assets at an amount equal to lifetime ECLs. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, and considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, including contract assets, are presented separately in the statement of profit or loss and OCI.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.13 Employee Benefits

Defined contribution pension plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Group receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Group's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is re-measured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity.

1.14 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation arising from a past event that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.15 Revenue

The Group recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company has applied the five-step model set out in IFRS 15 Revenue from Contracts with Customers in order to determine the revenues to be recognised, the five steps being: Identify the contract, Identify the performance obligations in the contract, Determine the transaction price, Allocate the transaction price to the performance obligations in the contract, and Recognise the revenue when the entity satisfies the performance obligation.

Commision revenue

Revenue from the Group's online betting exchange arises from the commission earned on betting transactions on individual sporting and other events entered into by customers of the exchange. The obligation of the exchange is to facilitate and settle these bets to the respective customer accounts once the outcome of the sporting or other event is known and hence the amount of the winning and losing customer bets is determinable. The commission, calculated on the amount of the winning customer bets, is recognised on this settlement date.

Net gaming revenue

Revenue from betting activities on individual sporting and other events comprises income from remote gaming transactions i.e. bets entered into on sporting and other events made with counterparties, these being either online betting exchanges or other gaming transaction providers. This income comprises the aggregate amount due in respect of winning bets shown after deduction of the amounts lost on losing bets and any commissions incurred. This revenue is recognised once the outcome of the sporting or other event is known and hence the amount of the winning and losing bets is determinable.

The value of open betting positions is recognised in revenue based on the best estimate of the amount that will be required to settle the position at the balance sheet date. The transactions are accounted for as derivatives at fair value in accordance with note 1.8 above with the change in value being recognised in revenue.

Customer bonuses granted

Bonuses granted to customers of the exchange are recognised as a liability when the customer fulfils the criteria to qualify for the bonus offered and the cost is accounted for as an offset to revenue.

1.16 Other operating income

Other operating income comprises predominantly credit card commissions and inactive account fess.

Credit card commissions are recognised on completion of a deposit transaction by a customer made using a credit card.

Inactive account fees are charged in arrears at a fixed amount each month following 12 months of account inactivity, in accordance with the terms and conditions of account usage.

1.17 Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.18 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.19 IFRS not yet applied

The following new standards and interpretations have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Amendments to References to the Conceptual Framework in IFRS Standards (effective date 1 January 2020).
- Amendments to IFRS 3: Definition of a Business (effective date to be confirmed).
- Amendments to IAS 1 and IAS 8: Definition of Material (effective date 1 January 2020).
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (effective date to be confirmed).

2 Revenue

	2019	2018
	£000	£000
Commission earned from betting activity on sporting and other events	**7,062**	7,357
Net revenue from betting activity on sporting and other events	**13,197**	5,495
Customer bonuses granted	**(992)**	(910)
Total revenue	**19,267**	11,942

3 Other operating income

	2019	2018
	£000	£000
Inactive account fees	**150**	142
Other	**11**	1
Total Other operating income	**161**	143

4 Expenses and auditor's remuneration

	2019	2018
Included in profit are the following:	**£000**	£000
Employment costs (note 5)	**8,922**	8,356
Of which: Employer contributions to defined contribution pension plans	**138**	96
Foreign exchange losses	**65**	77
Depreciation of property, plant and equipment (note 9)	**988**	953
Amortisation of intangible fixed assets (note 10)	**1**	2
Auditor's Remuneration		
For audit of these financial statements	**78**	72
For taxation compliance services	**17**	10
For other services	**57**	56

Amounts receivable by the Group's auditors in respect of the audit of financial statements of subsidiaries of the Company amounted to £33,000 for the year ended 31 December 2019 (2018 - £22,000).

5 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	2019	2018
Software engineers	**63**	62
Business operations	**39**	40
Management and Administration	**9**	10
	111	112

The aggregate employment costs of these persons were as follows:

	2019	2018
	£000	£000
Wages and salaries	**7,892**	7,338
Share based payments (note 17)	**34**	82
Social security costs	**858**	830
Pension contributions	**138**	96
Other	**-**	10
	8,922	8,356

6 Directors' Remuneration

The compensation of Jason Trost, the Chief Executive Officer of the Company, was as follows:

	2019	2018
	£	£
Salary and bonuses	**182**	164
Social security costs	**13**	12
Medical Insurance	**6**	3
Other	**-**	1
	201	180

Neither of the other Directors received any compensation for their services to the Group or the Company for the year ended 31 December 2019 (2018 - £Nil).

7 Financial income and expense

	2019	2018
	£000	£000
Financial income recognised in profit or loss		
Interest income on financial assets	**136**	46
Total financial income	**136**	46
Financial expense recognised in profit and loss		
Interest expense on lease liabilities	**(208)**	(226)
Interest expense on other liabilities	**(2)**	(24)
Total financial expense	**(210)**	(250)

8 Taxation

Recognised in the income statement	**2019**	2018
	£000	£000
Current tax credit/(expense)		
Current year	**156**	(183)
Current tax credit/(expense)	**156**	(183)
Deffered tax expense		
Fixed asset temporary differences	**(45)**	29
Short term temporary differences	**25**	18
Tax value of loss carry-forwards and other deductions	**20**	(47)
Deffered tax expense (note 17)	**-**	-
Total tax credit/(expense) recognised in income statement	**156**	(183)
Total tax recognised in other comprehensive income	**-**	-
Total tax recognised directly in equity (i.e. not in comprehensive income)	**-**	-
Reconciliation of effective tax rate		
Loss for the year	**(516)**	(9,199)
Total tax (credit)/expense	**(156)**	183
Loss before taxation	**(672)**	(9,016)
Tax using the average UK corporation tax rate of 19.00% (2018 – 19.00%)	**(128)**	(1,713)
Effect of tax rates in foreign jurisdictions	**1,101**	36
Research and development tax credits relating to prior years	**(1,108)**	-
Tax reclaimable on dividends received	**(2,666)**	(1,019)
Tax losses not recognised	**2,495**	2,612
Deferred tax rate and other adjustments	**19**	350
Non-deductible expenses	**46**	102
Effect of IFRS16 *Leases*	**(6)**	175
Prior year adjustments	**(1)**	(9)
Other	**2**	(1)
Total tax (credit)/expense	**(156)**	183

UK Corporation Tax was charged at 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. However, in the UK Government's 2020 Budget, it was announced that the rate would remain at 19% for the years commencing 1 April 2020 and 2021.

Maltese income taxes are initially levied on Maltese tax resident companies at 35% of taxable income (2018 – 35%). However, if the post-tax retained earnings are paid out by way of dividend then the value of the dividend to the recipient is greater due to an entitlement to reclaim six sevenths of the income taxes originally paid on the grossed-up amount of the dividend. Tax reclaimable on dividends received represents this proportion of Maltese income taxes reclaimable on dividends from subsidiary companies. Such amounts that remain outstanding are included in the balance sheet under Tax Receivable, as follows:

Tax recievable	**2019**	2018
	£	£
Tax reclaims receivable on dividends received	**3,681**	2,254
Research and development tax credits receivable	**1,176**	632
Other	**12**	1
	4,869	2,887

9 Property, plant and equipment

	Leasehold Property	Leasehold improvements	Computer equipment	Fixtures and fittings	Total
		£000	£000	£000	£000
Cost					
Balance at 1 January 2018	5,783	671	243	230	6,927
Additions	310	17	63	58	448
Foreign exchange movements	15	-	2	1	18
Balance at 31 December 2018	6,108	688	308	289	7,393
Balance at 1 January 2019	6,108	688	308	289	7,393
Additions	31	-	22	14	67
Lease modification	(192)	-	-	-	(192)
Foreign exchange movements	(11)	-	(1)	(1)	(13)
Balance at 31 December 2019	5,936	688	329	302	7,255
Depreciation and impairment					
Balance at 1 January 2018	(1,231)	(127)	(90)	(72)	(1,520)
Depreciation charge for the year	(756)	(71)	(68)	(58)	
Foreign exchange movements	(3)	-	(1)	(1)	(13)
Balance at 31 December 2018	5,936	688	329	302	7,255
Balance at 1 January 2019	5,936	688	329	302	7,255
Depreciation charge for the year	(733)	(71)	(78)	(66)	(988)
Lease modification	556	-	-	-	556
Foreign exchange movements	5	-	1	-	6
Balance at 31 December 2019	(2,202)	(269)	(235)	(197)	(2,903)
Net book value					
At 1 January 2018	4,552	544	153	158	5,407
At 31 December 2018	4,118	490	150	158	4,916
At 31 December 2019	**3,734**	**419**	**94**	**105**	**4,352**

10 Intangible assets

	Access intangibles	Other intangibles	Total
	£000	£000	£000
Cost			
Balance at 1 January 2018	-	71	71
Additions	-	-	-
Balance at 31 December 2018	-	71	71
Balance at 1 January 2019	-	71	71
Additions	1,507	-	1,507
Balance at 31 December 2019	1,507	71	1,578
Amortisation and impairment			
Balance at 1 January 2018	-	(29)	(29)
Amortisation for the year	-	(2)	(2)
Balance at 31 December 2018	-	(31)	(31)
Amortisation for the year	-	(1)	(1)
Balance at 31 December 2019	-	(32)	(32)
Net book value			
At 1 January 2018	-	42	42
At 31 December 2018	-	40	40
At 31 December 2019	**1,507**	**39**	**1,546**

The amortisation charge is recognised in the Administrative expenses line in the Income Statement.

Access intangibles represent rights acquired from licensed sports gaming market participants in the United States to access those markets in individual states for periods of 10 years. The assets were acquired in 2019 but the launch of the Group’s operations in those states is due to occur in 2020 when amortisation will commence.

11 Investments in subsidiaries

The Group has the following investments in subsidiaries, the financial statements of all of which have been included in these consolidated financial statements:

	Principal place of business	Country of incorporation	Registered number	Class of shares held	Ownership	
Subsidiaries of Smarkets Limited					**2019**	**2018**
Hanson Applied Sciences Limited	Malta	United Kingdom	08509475	Ordinary Shares	100%	100%
Smarkets Holdings (Malta) Limited	Malta	Malta	C 72638	Ordinary Shares	100%	100%
Smarkets (Clients) Limited	United Kingdom	United Kingdom	11184989	Ordinary Shares	100%	100%
Smarkets Holdings (USA) Inc.	United States	United States	7588121	Ordinary Shares	100%	N/A
Smarkets Inc.	United States	United States	6269386	Ordinary Stock	N/A	100%
Subsidiaries of Smarkets Holdings (Malta) Limited						
Smarkets (Malta) Limited	Malta	Malta	C 44795	Ordinary Shares	100%	100%
Subsidiaries of Smarkets Holdings (USA) Inc.						
Smarkets Inc.	United States	United States	6269386	Ordinary Stock	100%	N/A
Smarkets USA OpCo	United States	United States	7588116	Ordinary Stock	100%	N/A

The registered offices of the investments held at 31 December 2019 are as follows:

- Hanson Applied Sciences Limited and Smarkets (Clients) Limited - 7th floor Commodity Quay, St. Katharine Docks, London, E1W 1AZ, United Kingdom.
- Smarkets (Malta) Limited and Smarkets Holdings (Malta) Limited - Level 7, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta.
- Smarkets Inc. - 527 W. 7th St., Suite 601, Los Angeles, CA 90014, United States.
- Smarkets Holdings (USA) Inc. and Smarkets USA OpCo - 251 Little Falls Drive, Wilmington, Delaware, 19808, United States.

The activities of Smarkets (Malta) Limited are operated under a B2C Type 3 remote gaming licence granted by the Malta Gaming Authority, as well as licences granted by the UK Gambling Commission and the Irish Office of the Revenue Commissioners.

On 2 February 2018, Smarkets (Clients) Limited was incorporated in the United Kingdom. The company had not commenced operations by 31 December 2018 and was exempt from audit for the year then ended.

Both Smarkets Holdings (USA) Inc. and Smarkets USA OpCo were incorporated in Delaware on 3 September 2019. On 6 September 2019, Smarkets Limited transferred its holding of common stock of Smarkets Inc. to Smarkets Holdings (USA) Inc. None of the subsidiary companies incorporated in the United States required an audit for the year ended 31 December 2019.

12 Other financial assets and liabilities

	2019	2018
	£000	£000
Current asset		
Fair value of open betting positions	**39**	70
	39	70
Current liability		
Fair value of open betting positions	**(107)**	(109)
	(107)	(109)

Open betting position asset and liabilities are derivative positions which are valued at fair value in the balance sheet. The fair valuation methodology is discussed in note 20. The loss for the year ended 31 December 2019 on other financial assets and liabilities was £30,000 (2018 – loss of £150,000).

13 Trade and other recievables

	2019	2018
	£000	£000
Balances with other betting businesses	**728**	973
Rent deposits	**58**	59
Prepayments	**523**	422
Other debtors	**126**	174
Total trade and other recievables due within 1 year	**1,435**	1,628

At 31 December 2019, there were no receivables that were past due nor considered to be impaired (2018 - £Nil).

14 Cash and cash equivalents

	2019	2018
	£000	£000
Cash at bank	**35,239**	36,980
Total cash and cash equivalents	**35,239**	36,980

Cash and cash equivalents comprised short-term interest-bearing bank deposits and includes £27,124,000 (2018 - £28,785,000) of assets held in separate bank accounts on behalf of customers and which represent the amounts that those customers have deposited in order to transact on the Group's betting exchange.

15 Non-current liabilities

	2019	2018
	£000	£000
Lease liabilities	3,315	3,568
Total non-current liabilities	3,315	3,568

On 4 September 2015, the Company entered into a 10-year lease, with a tenant exercisable break clause after 7 years, for the 7th floor of Commodity Quay, St. Katharine Docks, London, E1W 1AZ. The lease commenced on 25 September 2015 with an annual rental of £580,000, but with the first nine months being rent free.

On 5 February 2016, Smarkets (Malta) Limited entered into a 5-year lease, with a tenant exercisable break clause after 1 year, for office space on Level 7, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta. The lease commenced on 15 February 2016 with an annual rental of €35,400 increasing by 3% on an annual basis.

On 16 September 2016, Hanson Applied Science Limited entered into a 5-year lease, with a tenant exercisable break clause after 2 years, for office space on Level 1, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta. The lease commenced on 1 February 2017 with an annual rental of €27,260.

On 13 January 2017, the Company entered into a 5-year lease, terminatable by the tenant with 6 months' notice, for part of the 1st floor of Commodity Quay, St. Katharine Docks, London, E1W 1AZ. The lease commenced on 2 February 2017 with an annual rental of £282,948, which is subject to annual review. The lease was terminated on 12 August 2019 and replaced with a new 5-year lease commencing on the same date, with an unchanged annual rental of £282,948.

On 1 August 2018, Smarkets (Malta) Limited entered into a 7-year and 2-month lease, with a tenant exercisable break clause after 1 year, for office space on Level 2, The Hedge, Triq Ir-Rampa ta', San Giljan, St Julians, STJ 1062, Malta. The lease commenced on 1 August 2018 with an annual rental of €43,800 increasing by 3% on an annual basis.

Maturity analysis	**2019**	2018
	£000	£000
Contractual undiscounted cash flows		
Less than one year	**1,031**	1,107
One to five years	**3,561**	3,319
More than five years	**320**	957
Total undiscounted lease liabilities at 31 December	**4,912**	5,383
Lease liabilities included in the Statement of Financial Position at 31 December		
Current	**1,031**	1,107
Non-current	**3,315**	3,568
	4,316	4,675

The borrowing rate implicit in the leases is 4.75%.

16 Trade and other payables

	2019	2018
	£000	£000
Customer account liabilities	**27,124**	28,785
Betting, indirect and payroll taxation liabilities	**1,381**	842
Other betting related trade payables	**183**	159
Accounts payable and accrued expenses	**700**	892
Lease liabilities	**1,031**	1,107
Other creditors	**112**	60
Total trade and other payables due within 1 year	**30,351**	31,845

The customer account liabilities are matched by assets held in separate bank accounts as discussed in note 14.

17 Deferred tax assets and liabilities

Deferred tax assets and liabilities were attributable to the following:	2019	2018
	£000	£000
Tax effected temporary timing differences		
Property, plant and equipment	**65**	20
Short term temporary differences	**(45)**	(20)
Tax value of loss carry-forwards	**(20)**	-
Net deferred tax	**-**	-
Movement recognised in income		
Property, plant and equipment	**(45)**	29
Short term temporary differences	**25**	18
Tax value of loss carry-forwards utilised	**20**	(47)
	-	-

Unused tax losses in the Group for which no deferred tax asset was recognised amounted to £27,410,000 (2018 - £19,272,000).

18 Employee benefits

18.1 Defined contribution pension plan

From 1 April 2016, the Company has operated a defined contribution pension plan for the benefit of qualifying UK based employees. Up until 5 April 2018, the Company made contributions to the plan of up to 1% of salary with employees also contributing 1%. From 6 April 2018, the Company has made contributions of 2% of salary with employees contributing 3% in accordance with relevant legislation. The total expense relating to this plan for the year ended 31 December 2019 was £138,000 (2018 - £96,000). The total unpaid balance to the scheme is included in creditors and at 31 December 2019 was £33,000 (2018 - £32,000).

The Group does not operate any other pension plans for employees.

18.2 Share based payments

The Company operated an employee share-based incentive scheme granting options to eligible employees of the Group during the two years ended 31 December 2019.

The options grant the holder the right to acquire Ordinary shares in the Company and vest over a four-year period commencing from the employee's employment start date. The first 25% of the number of options granted vest after 1 year of service, and the remainder vest in equal monthly tranches over the following three years of service. If the employee leaves the employment of the Company during this period, then all unvested options are forfeited.

No options were granted in the year ended 31 December 2019. Options granted in the year ended 31 December 2018 have an exercise price of £19.95 (2017 - £19.95 and years up to 2016 - £1.00). During the year ended 31 December 2019, holders exercised 17,056 options (2018 – 3,978 options) and paid £19,027 (2018 - £13,889) to receive 17,056 Ordinary shares (2018 – 3,978 Ordinary shares). The options issued under this scheme to UK resident employees have been issued under the Enterprise Management Initiative ('EMI') arrangements as the Company has met and continues to meet the qualifying criteria. These EMI arrangements provide tax advantages to the option holders.

The weighted average share price at the date of exercise of share options exercised during the year was £10.17 (2018 - £15.72).

The number of share options in issue was as follows:

	Number of options	
	2019	2018
Outstanding at the beginning of the year	**85,625**	61,375
Exercised during the year	**(17,056)**	(3,978)
Granted during the year	**-**	32,000
Lapsed during the year	**(23,569)**	(3,772)
Outstanding from the end of the year	**45,000**	85,625
Exercisable at the end of the year	**35,097**	49,892

Valuation methodology

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) as determined using a Black-Scholes model. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the relevant vesting period based upon provision of service by the employees and an estimate of the number of share options that will eventually vest.

The inputs into the Black-Scholes for the share option plans for the share options issued in the year ending 31 December 2018 were as follows:

	2018
Weighted average share price at grant date	£15.72
Weighted average option exercise prices	£19.95
Expected volatility	12%
Expected option life	10 years
Weighted average contractual life of outstanding share options	7.0 years
Risk-free interest rate	1.5%
Expected dividend yield	0.0%
Fair value of options granted in the year	£1.81

Volatility for the options issued in 2018 was determined by reference to movements in the share prices of the FTSE 350 index for the previous 12 months adjusted for the increased risk of a private company.

The total expense recognised for the year and the total liabilities recognised at the end of the year arising from share-based payments were £34,000 for the year ended 31 December 2019 (2018 - £82,000).

19 Capital and reserves

Movements in share capital for the year ending 31 December 2019 were as follows:

Fully paid shares	Series A Preference shares of £0.005 each		Deferred shares of £0.005 each		Ordinary shares of £0.005 each	
	2019	2018	**2019**	2018	**2019**	2018
In issue at 1 January	751,468	751,468	124,144	124,144	1,734,685	1,730,707
Exercise of share options	-	-	-	-	17,056	3,978
In issue at 31 December	751,468	751,468	124,144	124,144	1,751,741	1,734,685

Share capital outstanding at 31 December 2019, was as follows:

Fully paid shares	**2019**	2018
	£	£
Allotted, called up and fully paid		
Ordinary shares of £0.005 each	**8,759**	8,673
Deferred shares of £0.005 each	**621**	621
Series A Preference shares of £0.005 each	**3,757**	3,757
Shares classified as shareholders' funds	**13,137**	13,051

During the year ended 31 December 2019, the Company issued 17,056 shares in respect of share options exercised in the year (2018 – 3,978 shares).

Classes of share

The Ordinary shares and the Series A Preference Shares each constitute a separate class of shareholders of Ordinary shares in the Company and, except as set out below, rank pari passu in all respects. All such shares confer equal rights to dividend payments and equal rights to vote at meetings of the Company on a show of hands, each holder of such shares having one vote. On a poll, each holder shall have one vote for each such share held.

The Deferred shares confer no rights to vote or any right to receive dividends.

The Series A Preference Shares are automatically converted into Ordinary shares immediately upon the occurrence of a qualifying IPO otherwise they may be converted at the option of the holder at the issue price of the shares held. They are not redeemable for cash.

In the event of liquidation, dissolution or winding up of the Company, the deferred shareholders will receive £1 for the entire issue and the remaining proceeds shall be distributed among the holders of the Ordinary and Series A Preference Shares pro rata to the number of shares held plus any arrears of dividend, provided that the amount of the distribution per share exceeds £15.54. Below this threshold amount, holders of the Series A Preference shares will receive an amount of up to £3.108 per share and then the deferred shareholders will receive £1 for the entire issue. Any remaining proceeds, if any, will then be distributed among the holders of the Ordinary and Series A Preference Shares pro rata to the number of shares held plus any arrears of dividend.

Dividends

No dividends were paid during the year or the preceding year. No dividends have been proposed by the Directors.

20 Financial instruments

20.1 Fair values of financial instruments

Financial assets and liabilities of the Group comprise trade and other receivables, cash and cash equivalents and other betting related financial assets and liabilities including open betting transactions, assets held on trust for customers and amounts owing to customers.

The fair values of all financial assets and financial liabilities together with their carrying amounts shown in the balance sheet are as follows:

	Carrying amount	**Fair value**	Carrying amount	Fair value
	2019 £000	**2019 £000**	2018 £000	2018 £000
Trade and other receivables (note 13)	**807**	**807**	1,040	1,040
Cash and cash equivalents (note 14)	**35,239**	**35,239**	36,980	36,980
Other financial assets (note 12)				
Open betting transactions	**39**	**39**	70	70
Total financial assets	**36,085**	**36,085**	38,090	38,090
Trade and other payables (note 16)	**(28,860)**	**(28,860)**	(30,685)	(30,685)
Other financial liabilities (note 12)				
Open betting transactions	**(107)**	**(107)**	(109)	(109)
Non-current liabilities (note 15)	**(3,315)**	**(3,302)**	(3,568)	(3,491)
Total financial liabilities	**(32,282)**	**(32,269)**	(34,362)	(34,285)
Net financial assets	**3,803**	**3,816**	3,728	3,805

The carrying value of open betting transactions equates to fair value as such transactions are accounted for as derivatives. Non-current liabilities comprise lease liabilities (note 15) for which fair value has been calculated using a discounted cashflow model. For all other financial assets and liabilities, carrying value approximates to fair value because of their short-term nature.

Open betting asset and liability transactions are derivative positions which are valued at fair value in the balance sheet. These fair values are calculated based upon the latest open market prices on the relevant underlying sporting or other events available at the close of business at the valuation date. As such, the valuation method used falls into Level 2 of the standard financial instruments fair value hierarchy, as follows:

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

20.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The financial instrument Credit risk of the Group arises principally from the Group's receivables from other betting businesses. Customers of the Group are required to deposit monies with the Group sufficient to cover any exposure arising from betting transactions that they then proceed to undertake and, as such, no credit risk arises from such activities.

The exposure to credit risk of other betting businesses comprises deposits made with such businesses so that the Group can undertake betting transactions. These funds may be withdrawn at will to the extent that the amount exceeds the exposure created by open betting transactions entered into with the particular counterparty. As most betting activity occurs on the day of the event to which the transaction relates, the amount of outstanding transactions at the end of any trading day tends to be small.

The credit risk arising from deposits with other betting businesses is best represented by their balance sheet carrying value which at 31 December 2019 amounted to £727,000 (2018 - £972,000).

No impairment losses have been recognised against such assets.

20.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, to the extent practicable, that there will always be sufficient liquid resources to meet any liabilities or other contractual obligations as they fall due.

The betting transactions of the Group are to a very large extent of a short-term nature, much of it occurring on the day of the sporting or other event to which the transactions relate. As such, the Group is well able to monitor its potential liquidity risks and take action accordingly if those risks become exacerbated by stressed conditions.

Further, as customers of the Group are required to deposit monies with the Group sufficient to cover any exposure arising from betting transactions that they then proceed to undertake, and these customer assets are held in segregated cash accounts, the risk of failing to meet the obligations arising on the customer transactions is minimised.

With the exception of long-term finance lease liabilities (note 15), the Group has no outstanding borrowings, nor financial liabilities for which the contractual maturity extends beyond one year.

20.4 Market risk

Market risk is the risk that changes in market prices, such as betting prices, foreign exchange rates, and interest rates, will affect the Group's income or the value of its holdings of financial instruments.

Betting position risk

The Group monitors its price risks to open events on an ongoing basis.

Open betting positions on individual events tend to remain limited until the day of the sporting or other event concerned but can then expand rapidly, in the immediate period before the event takes place. When positions arise that exceed the risk appetite of the Risk Manager, hedging transactions are undertaken with other betting businesses to mitigate the exposure.

Management of the Group actively discusses the extent of risk to be taken and also monitors the performance of the risk taking and hedging activities on a daily basis.

Interest rate risk

The Group has no borrowings and no term cash deposits and, as such, has only a very limited exposure to interest rate risk.

Foreign currency risk

The Group is exposed to foreign currency risk primarily from:

- Commissions earned from betting transaction activity where the customer has a settlement currency other than GBP.
- Expenses incurred in operations in jurisdictions in which the local currency is not GBP. In particular, the Group incurs expenses in EUR in connection with the operation of the betting exchange in Malta.

Assets deposited by customers are retained in the currencies in which they were deposited so mitigating the outstanding liabilities to the customers. All betting risk is monitored, and settlements are calculated, in GBP.

At 31 December 2019, the Group's exposure to foreign currency risk was as follows. This is based on the carrying amount for monetary financial instruments.

31 December 2019	GBP	EUR	USD	Other	Total
	£000	£000	£000	£000	£000
Other financial assets	**39**	**-**	**-**	**-**	**39**
Trade and other receivables	**740**	**30**	**37**	**-**	**807**
Cash and cash equivalents	**33,044**	**1,056**	**60**	**1,079**	**5,239**
Non-current liabilities	**(2,992)**	**(213)**	**(110)**	**-**	**(3,315)**
Other financial liabilities	**(107)**	**-**	**-**	**-**	**(107)**
Trade and other payables	**(25,099)**	**(1,634)**	**(1,378)**	**(749)**	**(28,860)**
Net exposure	**5,625**	**(761)**	**(1,391)**	**330**	**3,803**

31 December 2019	GBP	EUR	USD	Other	Total
	£000	£000	£000	£000	£000
Other financial assets	70	-	-	-	70
Trade and other receivables	639	301	100	-	1,040
Cash and cash equivalents	35,032	1,067	128	753	36,980
Non-current liabilities	(3,096)	(324)	(148)	-	(3,568)
Other financial liabilities	(109)	-	-	-	(109)
Trade and other payables	(28,364)	(1,663)	(87)	(571)	(30,685)
Net exposure	4,172	(619)	(7)	182	3,728

A 10% percent weakening of GBP against all other currencies at 31 December 2019 would have decreased equity and profit and loss by £203,000 (2018 – decrease of £49,000). This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date and assumes that all other variables and other exchange rates remain constant.

A 10% percent strengthening of GBP against all other currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

20.5 Capital management

The capital structure of the Group consists of the equity attributable to equity holders of the Company comprising Capital and Reserves and Retained Earnings. The Group finances its operations through generation of retained earnings and management of the cash and cash equivalent balances and has sufficient capital to meet its regulatory and operational needs.

Historically, as the Group expanded, retained earnings were fully reinvested in the business and no dividends were paid. By early 2017, this reinvestment approach had generated sufficient retained earnings and cash for management to carry out a buy-back of 358,132 Ordinary shares of the Company for a total consideration of £7,144,340.

The level of cumulative retained earnings also allowed the Directors to take the strategic decision in 2018 to invest in expanding the customer base largely through advertising and marketing campaigns, and reduced commission offers, particularly via 0% promotions with high volume partners. Further, reduced spreads on quoted prices were offered, which increased volume but compressed margins. The costs associated with this investment were significant and, in combination with adverse outcomes from larger events during the year, including the Cheltenham Festival and the FIFA World Cup, the Group incurred losses for that year.

In 2019, net revenue from betting activity improved significantly mainly as a result of much more favourable outcomes from major events such as Cheltenham, and improvements made to trading algorithms. Costs also fell and, as a result, the Group lost £516,000 for the year as compared to £9,199,000 in 2018.

The capital position remained strong at 31 December 2019 and able to absorb the possibility of future series of unexpectedly adverse betting outcomes as happened in 2018. Further, the Group was in a position to leverage the higher user numbers as a basis for returning to profitability and would, other things being equal, have been able to conclude that the Group would be able to fully finance its operations with adequate contingency available for unexpected events for the foreseeable future.

However, and as discussed under Subsequent Events in note 23, in the period subsequent to these financial statements, an outbreak of Coronavirus ("Covid-19") developed into a global pandemic. The Group was adversely affected by the resulting postponement and cancellation of sporting events for several months in mid-2020 most notably in Europe, which had an adverse impact on volumes and revenues. During this period, management were able to take advantage of Government-sponsored schemes, as well as implementing other cost containment actions such as the temporary closure of offices which mitigated Group expense outflows for the period.

The holding of sporting events largely returned to normal in mid-2020, albeit without the presence of spectators, and betting volumes and revenues recovered accordingly. Management have revised their forecasts of future profitability and capital adequacy of the Group and the Company, including consideration of the potential impact of any further pandemic-related restrictions on sporting activities. In particular, management considered and modelled capital and liquidity scenarios in which further sporting event postponements or cancellations occurred, volatility in revenue from betting activity increased and Government support programmes were reduced.

As a result of this exercise, management has no expectation that under any reasonable scenario, the continuing effects of the pandemic will render the financing of the Company and the Group inadequate nor for it to continue in operational existence in the foreseeable future.

Dividends

Management do not propose any dividends or other distributions for the year ended 31 December 2019 (2018 - £Nil).

21 Related parties

At 31 December 2019, Directors of the Company and their immediate relatives controlled 29.7 per cent of the voting shares of the Company (2018 – 29.9 per cent).

22 Ultimate parent company

The Company is the ultimate parent company of the Group.

23 Subsequent events

On 11 March 2020, the World Health Organisation declared the outbreak of a Coronavirus ("Covid-19") pandemic, due to its rapid spread throughout the world, having affected more than 200 countries at that date. Most governments took restrictive measures to contain the spread including isolation, quarantine, restriction on the free movement of people, closure of public and private premises except from basic necessities and sanitary facilities, and the closure of borders and drastic reduction of air, sea, rail and land transport. The situation has significantly affected the global economy, due to the interruption or slowdown of supply chains and the significant increase in economic uncertainty, evidenced by an increase in the volatility of asset prices, exchange rates and a decrease in long-term interest rates.

In particular in this respect, the Group was adversely affected by the postponement and cancellation of sporting events for several months most notably in Europe, which had an adverse impact on volumes and revenues. During this period, management were able to take advantage of Government-sponsored schemes in the United Kingdom, Malta and the United States including staff furlough arrangements and loans, as well as implementing other cost containment actions such as the temporary closure of offices which mitigated Group expense outflows for the period.

The effect of the pandemic on the future operations of the Group is considered further in note 20.5.

No other matters arose in the period from the balance sheet up to the date of approval of these financial statements that require further disclosure.

Company balance sheet

31 December 2019	*Note*	**2019**	**2019**	2018	2018
		£000	**£000**	£000	£000
Fixed assets					
Intangible assets	*27*		**9**		10
Tangible assets	*28*		**3,780**		4,199
Investments	*29*		**84**		73
			3,873		4,282
Current assets					
Tax receivable		**1,176**		632	
Debtors (including £5,413 due after more than one year, 2018 - £Nil)	*30*	**10,722**		5,613	
Cash at bank and in hand		**29**		645	
		11,927		6,890	
Creditors: amounts falling due within one year	*31*	**(3,305)**		(1,538)	
Net current assets			**8,622**		5,352
Total assets less current liabilites			**12,495**		9,634
Creditors: amounts falling due after more then one year	*32*		**(2,992)**		(3,095)
Provisions for liabilities					
Deferred tax liability	*33*		**-**		-
Capital and reserves					
Called up share capital	*34*		**13**		13
Capital redemption reserve	*34*		**2**		2
Share premium account			**3,791**		3,772
Profit and loss account			**5,697**		2,752
Shareholders' funds			**9,503**		6,539

The notes on pages 53 to 64 form an integral part of these financial statements.

These financial statements were approved by the board of directors on Date and were signed on its behalf by:

Jason Trost
Director
Company registered number: 06475845

Company Statement of Changes in Equity

	Share capital	**Capital redemption**	**Share premium**	Profit and loss account	Total equity
	£000	**£000**	**£000**	£000	£000
Balance at 1 January 2018	13	2	3,758	8,890	12,663
Total comprehensive income for the year					
Loss for the year	-	-	-	(6,220)	(6,220)
Total comprehensive income for the year	-	-	-	(6,220)	(6,220)
Total transactions with owners of the company					
Issue of shares (note 34)	-	-	14	-	14
Share based payment transactions	-	-	-	82	82
Total transactions with owners of the company	-	-	14	82	96
Balance at 31 December 2018	13	2	3,772	2,752	6,539

	Share capital	**Capital redemption**	**Share premium**	Profit and loss account	Total equity
	£000	**£000**	**£000**	£000	£000
Balance at 1 January 2019	13	2	3,772	2,752	6,539
Total comprehensive income for the year					
Profit for the year	-	-	-	2,911	2,911
Total comprehensive income for the year	-	-	-	2,911	2,911
Total transactions with owners of the company					
Issue of shares (note 34)	-	-	19	-	19
Share based payment transactions	-	-	-	34	34
Total transactions with owners of the company	-	-	19	34	53
Balance at 31 December 2019	13	2	3,791	5,697	9,503

The notes on pages 53 to 64 form an integral part of these financial statements.

24 Accounting policies

The following accounting policies below have, unless otherwise stated, been applied consistently in dealing with items which are considered material in relation to the financial statements.

24.1 Basis of preperation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") but makes amendments where necessary to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The financial statements have been prepared on an ongoing basis. For full details of the ongoing concern assessment performed by the Directors please see note 1.3 to the Consolidated Financial Statements.

Under section s408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account. The Company's profit for the financial year was £2,911,000 (2018 – loss of £6,220,000).

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 *Financial Instrument Disclosures.*
- The effects of new but not yet effective IFRSs.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.
The preparation of financial statements in conformity with FRS101 requires management to exercise its judgement in the process of applying the Company's accounting policies. However, the Directors have not had to make any judgements resulting in a material financial impact on the financial statements as a result of the application of these accounting policies.

24.2 Measurement convention

The financial statements are prepared on the historical cost basis except where otherwise noted in these accounting policies.

24.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency of United Kingdom Pounds Sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

24.4 Intangible fixed assets and amortisation

Expenditure on internally generated software and other intangibles is recognised in the profit and loss account as an expense incurred.

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Other intangibles	3 years

Amortisation methods, useful lives and residual values are reviewed at each balance sheet date.

24.5 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets are recognised and measured as described in note 25.7.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Leasehold property	Life of the lease
Leasehold improvements	10 years or the remaining life of the lease, if shorter
Computer equipment	3 years
Fictures and fittings, including office equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

24.6 Investments in subsidiaries

Investments in subsidiaries are recognised at cost less any provision for impairment.

24.7 Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantively all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

At the commencement of the lease term, the Company recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date. Any initial direct costs of the lessee are added to the amount recognised as an asset. The asset so recognised is depreciated on the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate as the discount rate. The lease liability is measured at amortised cost using the effective interest method.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

24.8 Non-derivative financial instruments

The Company recognises financial assets at either Amortised cost, Fair value through other comprehensive income (“FVOCI”) and Fair value through profit and loss (“FVTPL”). The classification of financial assets is generally based on the business model on which a financial asset is managed and its contractual cash flow characteristics.

Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets (other than trade receivables without a significant financing component) and financial liabilities are initially measured at fair value plus, for an item not measured at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

On initial recognition, a financial asset is classified as being measured at either Amortised cost, FVOCI – debt investment, FVOCI – equity investment or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and management does not designate that it should be measured at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For financial assets meeting these criteria which includes trade receivables and cash and cash equivalents, subsequent measurement of the amortised cost uses the effective interest method reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is measured at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated by management as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities, which includes trade and other payables, are subsequently measured at amortised cost using the effective interest method, and interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legally enforceable right to set off the amounts and it intends to either settle them on a net basis or to realise the asset and settle the liability simultaneously.

Ordinary share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, net of tax effects, are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12 Income taxes.

24.9 Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

24.10 Impairment excluding deferred tax assets

Financial assets (including receivables)

The Company recognises loss allowances for Expected Credit Losses (“ECLs”) on financial assets at amortised cost.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset. In the case of interest free financial assets, such as trade receivables, ECLs are not discounted. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Loss allowances are measured on either of the following bases:

- 12-month ECLs - these are ECLs that result from possible default events within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months); and
- lifetime ECLs - these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances for trade receivables without a significant financing component and contract assets at an amount equal to lifetime ECLs. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, and considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, including contract assets, are presented separately in the statement of profit or loss and OCI.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

24.11 Employee benefits

Defined contribution pension plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Share based payments

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Company receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Company's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is re-measured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity.

24.12 Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

a. they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

b. where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

24.13 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

24.14 Revenue

The Company recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company has applied the five-step model set out in IFRS 15 *Revenue from Contracts with Customers* in order to determine the revenues to be recognised, the five steps being: Identify the contract, Identify the performance obligations in the contract, Determine the transaction price, Allocate the transaction price to the performance obligations in the contract, and Recognise the revenue when the entity satisfies the performance obligation.

The Company enters into two forms of contract with other Group companies, as follows:

- To grant intellectual property rights to exclusive use of software owned and developed by the Company. The contract transaction price is based on a percentage of revenues generated by the counterparty on a monthly basis, the percentage having been determined by comparison with available market information.
- To commit to provide specified management services, including software development and support services. The contract sets out the specific service obligations as well as the transaction price which is determined and charged on a monthly basis.

For both types of contract, the whole transaction price is recognised as revenue by the Company at the end of each month, at which point the Company has fulfilled its performance obligation to provide either exclusive use of the software or the specified services for that period.

24.15 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

When losses made by Group companies are surrendered to other Group companies by way of Group Relief, payment is made by the receiving company for the tax effect of those losses.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.
A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

24.16 IFRS not yet applied

The following new standards and interpretations have been issued but have not been applied by the Company in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Amendments to References to the Conceptual Framework in IFRS Standards (effective date 1 January 2020).
- Amendments to IFRS 3: Definition of a Business (effective date to be confirmed).
- Amendments to IAS 1 and IAS 8: Definition of Material (effective date 1 January 2020).
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (effective date to be confirmed).

25 Remuneration of Directors

The compensation of Jason Trost, the Chief Executive Officer, for the year ended 31 December 2019 was £42,350 (2018 – £40,425).

Neither of the other Directors received any compensation from the Company for their services for the year ended 31 December 2019 (2018 - £Nil).

26 Dividends

No dividends were paid during the year or the preceding year. No dividends have been proposed by the Directors.

27 Intangible fixed assets

	Other intangibles	Total
	£000	£000
Cost		
Balance at 1 January 2018	41	41
Additions	-	-
Balance at 31 December and 1 January 2019	41	41
Addtions	-	-
Balance at 31 December 2019	41	41
Amortisation and impairment		
Balance at 1 January 2018	(29)	(29)
Amortisation for the year	(2)	(2)
Balance at 31 December 2018 and January 1 2019	(31)	(31)
Net book value		
At 1 January 2018	12	12
At 31 December 2018 and 1 January 2019	10	10
At 31 December 2019	**9**	**9**

28 Tangible fixed assets

	Leasehold Property £000	Leasehold improvements £000	Computer equipment £000	Fixtures & fittings £000	Total £000
Cost					
Balance at 1 January 2018	5,269	650	222	190	6,331
Additions	-	17	43	35	95
Disposals	-	-	-	-	-
Balance at 31 December 2018 and 1 January 2019	5,269	667	265	225	6,426
Additions	-	-	14	9	23
Lease modification	(192)	-	-	-	(192)
Balance at 31 December 2019	5,077	667	279	234	6,257
Depreciation and impairment					
Balance at 1 January 2018	(1,141)	(124)	(85)	(67)	(1,417)
Depreciation charge for the year	(635)	(67)	(60)	(48)	(810)
Disposals	-	-	-	-	-
Balance at 31 December 2018 and January 1 2019	(1,776)	(191)	(145)	(115)	(2,277)
Depreciation charge for the year	(621)	(67)	(66)	(52)	(806)
Lease modification	556	-	-	-	556
Balance at 31 December 2019	(1,841)	(258)	(211)	(167)	(2,477)
Net book value					
At 1 January 2018	4,128	526	137	123	4,914
At 31 December 2018 and 1 January 2019	3,493	476	120	110	4,199
At 31 December 2019	**3,236**	**409**	**68**	**67**	**3,780**

29 Fixed asset investments

Cost and Net Book Value	Shares in group undertakings £000	Total £000
At 1 Januray 2018	68	68
Additions	5	5
Disposals	-	-
At 31 December 2018 and 1 January 2019	73	73
Additions	11	11
Disposals	-	-
At 31 December 2019	84	84

Refer to note 11 for additional disclosure on investments in Group undertakings.

30 Debtors

	2019	2018
	£000	£000
Due within 1 year		
Amounts owed by Group undertakings	**1,269**	4,268
Prepayments and accrued income	**254**	165
Income and other taxes recoverable	**105**	165
Other debtors	**3,681**	1,015
Total Debtors due within 1 year	**5,309**	5,613
Due after more than 1 year		
Amounts owed by Group undertakings	**5,413**	-
Debtors due after more than 1 year	**5,413**	-
Total Debtors	**10,722**	5,613

In reviewing for impairment the carrying amounts of debtors due from the subsidiaries, Smarkets(Malta) Limited and Hanson Applied Sciences Limited, including the debtor due after more than 1 year, the assets of those subsidiaries were grouped together and considered as one cash-generating unit as their principal activities in the gaming markets have a significant degree of interdependency and, as a result, their cashflows are not independent. No impairment in the carrying values of the debtors was identified as a result of this review.

Other Debtors represent amounts receivable on dividends received from subsidiary companies.

As at 31 December 2019, there were no debtors that were past due nor considered to be impaired (2018 - £Nil).

31 Creditors: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	**331**	547
Amounts owed to Group undertakings	**1,894**	-
Lease liabilities	**839**	924
Taxation and social security	**209**	25
Other creditors	**32**	42
Tax creditors due within 1 year	**3,305**	1,538

32 Creditors: amounts falling due after more than one year

	2019 £000	2018 £000
Lease liabilities	**2,992**	3,095
Total creditors: amounts falling due after more than one year	**2,992**	3,095

On 4 September 2015, the Company entered into a 10-year lease, with a tenant exercisable break clause after 7 years, for the 7th floor of Commodity Quay, St. Katharine Docks, London, E1W 1AZ. The lease commenced on 25 September 2015 with an annual rental of £580,000, but with the first nine months being rent free.

On 13 January 2017, the Company entered into a 5-year lease, terminatable by the tenant with 6 months' notice, for part of the 1st floor of Commodity Quay, St. Katharine Docks, London, E1W 1AZ. The lease commenced on 2 February 2017 with an annual rental of £282,948, which is subject to annual review. The lease was terminated on 12 August 2019 and replaced with a new 5-year lease commencing on the same date, with an unchanged annual rental of £282,948.

The borrowing rate implicit in the leases is 4.75%.

33 Deferred tax assets and liabilities

Deferred tax assets and liabilities were attributable to the following:

Tax effected temporary timing differences	2019 £000	2018 £000
Tangible assets	**65**	20
Short term temporary differences	**(45)**	(20)
Tax value of loss carry-forwards utilised	**(20)**	-
Net deferred tax	**-**	-

Movement recognised in income	2019 £000	2018 £000
Tangible fixed asset temporary differences	**45**	(29)
Short term temporary differences	**(25)**	(18)
Losses and other deductions	**(20)**	47
	-	-

Unused tax losses for which no deferred tax asset was recognised amounted to £21,276,000 at 31 December 2019 (2018 – £16,195,000).

34 Called up share capital

Fully paid shares	Series A Preference shares of £0.005 each		Deferred shares of £0.005 each		Ordinary shares of £0.005 each	
	2019	2018	**2019**	2018	**2019**	2018
In issue at 1 January	751,468	751,468	124,144	124,144	1,734,685	1,730,707
Issued for cash		-	-	-	17,056	3,978
In issue at 21 December		751,468	124,144	124,144	1,751,141	1,734,685

Share capital outstanding at 31 December 2019, was as follows:

Fully paid shares	2019 £	2018 £
Alloted, called up and fully paid		
Ordinary shares of £0.005 each	**8,759**	8,673
Deferred shares of £0.005 each	**621**	621
Series A Preference shares of £0.005 each	**3,757**	3,757
Shares classified as shareholders' funds	**13,137**	13,051

During the year ended 31 December 2019, the Company issued 17,056 shares in respect of share options exercised in the year (2018 – 3,978 shares).

Classes of share

The Ordinary shares and the Series A Preference Shares each constitute a separate class of shareholders of Ordinary shares in the Company and, except as set out below, rank pari passu in all respects. All such shares confer equal rights to dividend payments and equal rights to vote at meetings of the Company on a show of hands, each holder of such shares having one vote. On a poll, each holder shall have one vote for each such share held.

The Deferred shares confer no rights to vote or any right to receive dividends.

The Series A Preference Shares are automatically converted into Ordinary shares immediately upon the occurrence of a qualifying IPO otherwise they may be converted at the option of the holder at the issue price of the shares held. They are not redeemable for cash.

In the event of liquidation, dissolution or winding up of the Company, the deferred shareholders will receive £1 for the entire issue and the remaining proceeds shall be distributed among the holders of the Ordinary and Series A Preference Shares pro rata to the number of shares held plus any arrears of dividend, provided that the amount of the distribution per share exceeds £15.54. Below this threshold amount, holders of the Series A Preference shares will receive an amount of up to £3.108 per share and then the deferred shareholders will receive £1 for the entire issue. Any remaining proceeds, if any, will then be distributed among the holders of the Ordinary and Series A Preference Shares pro rata to the number of shares held plus any arrears of dividend.

35 Related party disclosures

Ultimare parent company

The Company is the ultimate parent company of the Group.

36 Subsequent events

On 11 March 2020, the World Health Organisation declared the outbreak of a Coronavirus ("Covid-19") pandemic, due to its rapid spread throughout the world, having affected more than 200 countries at that date. Most governments took restrictive measures to contain the spread including isolation, quarantine, restriction on the free movement of people, closure of public and private premises except from basic necessities and sanitary facilities, and the closure of borders and drastic reduction of air, sea, rail and land transport. The situation has significantly affected the global economy, due to the interruption or slowdown of supply chains and the significant increase in economic uncertainty, evidenced by an increase in the volatility of asset prices, exchange rates and a decrease in long-term interest rates.

In particular in this respect, the subsidiaries were adversely affected by the postponement and cancellation of sporting events for several months most notably in Europe, which had an adverse impact on betting volumes and revenues. This also impacted the Company through reduced revenues from intergroup charges. However, during the period affected, management were able to take advantage of Government-sponsored schemes in the United Kingdom including staff furlough arrangements, as well as implementing other cost containment actions such as the temporary closure of offices which mitigated expense outflows for the period. The holding of sporting events largely returned to normal in mid-2020, albeit without the presence of spectators, and activity across the Group and Company rapidly recovered to more normal levels.

No other matters arose in the period from the balance sheet up to the date of approval of these financial statements that require further disclosure.

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