

Annual report 2004

THE SPORTING EXCHANGE LIMITED

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For more information about Betfair,
please visit www.betfair.com

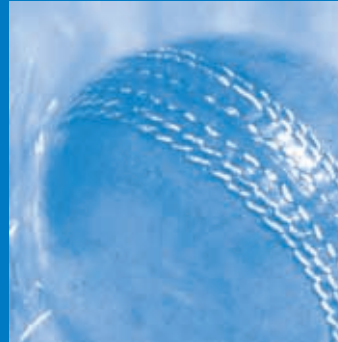
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Betfair offers
its customers
unrivalled choice,
value and
transparency in
sports betting



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“Our aim
was to **change**
the way that people
bet and make a **lasting**
and **positive**
impression on
the betting industry”

Andrew Black and
Edward Wray
Founders



Introduction from the Founders

Dear Shareholder,

We are delighted to introduce Betfair's first annual report. It is a fair bet that when we first started work on Betfair over five years ago, neither of us dared to hope that the company would become what it is today. The term "betting exchange" has become commonplace in the betting market and Betfair has become synonymous with it. Whereas a few years ago we would cheer every mention we got in the press, today it is a full-time job just to note them all down. We operate a database that Oracle now says is one of its five "hottest" installations in the world. We have progressed the company to a stage where it is sponsoring the world's oldest Classic, the St Leger. These are just a few examples from a long list of our successes to date.

When we started Betfair one of our aims was to change forever the way that people bet, and to make a lasting and positive impression on the betting industry. We are proud that we have undoubtedly already achieved this.

At the same time, though, it has become abundantly clear that the more we achieve, the more untapped demand we discover. We can genuinely say that the potential for the company today is greater than ever, and we are more excited about its prospects than we have ever been. If anyone thought that it was simply a case of building the system and then sitting back and enjoying it they were clearly very wrong!

Betfair is a dream come true for the two of us. However, it simply would never have happened without the enormous dedication of so many people, including the investors who were prepared to back us when so many people were not and, most of all, the phenomenal group of people who have worked at Betfair over the last five years. The company simply would not be where it is today without their efforts.

To everyone who has helped us along the way a very big thank you – you should take great pride in what you have helped create.

May the next five years be as successful as the last five and, importantly, as much fun!

Andrew Black
Founder

Edward Wray
Founder

Letter from the Chairman

Dear Shareholder,

Five years ago Betfair existed only in the minds of two very talented individuals, Andrew Black and Edward Wray. But in a short time the company has established itself as the dominant online betting exchange and has become an integral part of the sports betting industry.

Getting here has posed enormous challenges to all our staff, whose numbers have now grown to 450. They had to overcome all the hurdles to start-up, turning a revolutionary idea into a viable business, obtaining the funding to get the business off the ground, developing highly sophisticated technology, nurturing a rapidly growing customer base and, of course, keeping faith with investors.

Government and regulatory involvement in betting exchanges has increased proportionately, both here and overseas. We have taken great care in making our contribution to the debates on tax, funding and regulation.

In the case of regulation we passed a major milestone last year by signing a Memorandum of Understanding with the Jockey Club. This year we agreed a Code of Conduct for betting exchanges that has been welcomed by Government.

The debates with all sides of the industry have been lively. There has been much talk of integrity in betting and I look forward to seeing the standards of accountability which we have set, and signed up to, passed into law in 2005.

I believe that we now have, through the unrivalled choice, value and transparency that Betfair offers, achieved a platform of recognition from the industry and our customers. This will generate further rapid growth.

One of my tasks as Chairman has been to focus on achieving best practices in corporate governance. Your agreement, at the AGM in June, to the adoption of new Articles of Association has enabled us to move ahead with corporate governance in line with standards expected in the Combined Code. Our decision to publish an annual report is in line with this commitment.

I am confident that all these changes, which are an obvious accompaniment to our growth, will do nothing to dull the entrepreneurial spirit which has made Betfair a great British success story.

Our colleagues who have worked hard and loyally to achieve this deserve our warm thanks.

Robert Horton

Sir Robert Horton
Chairman

“ The decision to publish
an annual report reflects
our **commitment** to achieving
**best corporate
practice** ”

Sir Robert Horton
Chairman



“ I am pleased to report
**exceptional
progress**
on all fronts, with
the **doubling**
of **revenues** and
underlying
profits ”

Stephen Hill
Chief Executive

Chief Executive's Review

Exceptional progress on all fronts

Although this is our first annual report, Betfair has successfully completed its fourth year of operation and I am pleased to report exceptional progress on all fronts. In the year to April 30, 2004, our revenues grew by 106% and our operating profit improved by 52% from the previous year, on a reported basis.

Since June 2003 we have paid Gross Profits Tax in the same way as all UK licensed bookmakers, that is 15% of our gross profits (revenues). For the year under review we paid £9.3m in GPT against a payment of £2.4m in the year ended April 2003, made on the old basis.

Adjusting for this change in method of taxation, the operating profit in the year to April 30, 2003 would have been £5.4m, which means we have increased our operating profit by 108% on a like-for-like basis.

Betfair is financially strong and debt-free

The business remained strongly cash-generative, further strengthening the balance sheet with company cash balances of £32m, up from £19m. Our policy towards research and development remains very prudent, with the whole amount (£2.8m in the year to April 30, 2004) written off each year.

We have also adopted the best practice in relation to client deposits, which are ring-fenced and held in trust for the benefit of our customers. These funds amounted to some £66m at the end of April 2004, up from £27m the previous year.

Betting turnover continues to grow but has become a meaningless measure of our business. Betfair provides a real-time system which enables our customers to trade in and out of positions. In addition customers tend to recycle their winnings so the same initial stake can generate a turnover many times larger.

The view that betting turnover has become irrelevant is shared by leading high-street bookmakers, which are deriving more of their profit from high-turnover/low-margin-products. Hence we have decided not to publish turnover data as the scale of our business is more properly measured by our revenues. It is the latter figure which is audited and presented in this annual report.

Betfair paid £9.3m in Gross Profits Tax and £3.9m in Levy to UK horseracing in the year to April 30, 2004

Funding to UK horse racing nearly doubles

Horseracing remains Betfair's biggest source of revenues. To those who allege we do not pay our fair share to the sport, we can only report that we paid £3.9m in Levy to UK horseracing (up from £2.5m the previous year), which equates to 10 per cent of our gross profits from UK horseracing, in line with all other bookmakers.

Despite concerns voiced in the press about a shortfall in funding for the UK horseracing industry, the Levy reached £100m in 2003/04, up from £74.5m the previous year, and the sport is better funded than ever before.

Betfair's standing in the industry has been further recognised by the Secretary of State's decision to appoint us to represent betting exchanges on the Bookmakers Committee, the statutory body that decides the level of the horseracing Levy.

Further, we have demonstrated our long-term commitment to UK horseracing with a broad sponsorship programme. In 2003, we became the third most prolific sponsor of UK horse races after the European Breeders Fund and the Tote, sponsoring 110 races with total advertised prize money of over £1m. In September 2004 we sponsored the St Leger, the world's oldest Classic.

Steady growth in the UK and overseas looks promising

Our customer numbers have continued to grow and we now have close to 70,000 active customers in any month from a registered base of some 300,000.

Betfair's technology provides regulators with the most up-to-date tools to address corruption in sport

There is increasing interest overseas and some 20% of our revenue comes from outside the UK and Ireland. Principal regions include Europe, Australia and parts of Asia. In November last year we launched the site in German, Danish, Greek, Italian, Swedish, Norwegian, Finnish, Mandarin and Cantonese. Since we are currently restricted in what we can do in these markets we believe we have only just started to meet the demand of international customers.

Earlier this year the Australian government announced that it would maintain the exemption to the Internet Gaming Act, under which Betfair is able to operate, but not market, its service. Even without marketing, Australia is our largest single market outside the UK. We are now pressing hard for licences at State level, which would allow us to operate from Australia and promote our service in a market that has great potential.

We have agreed a joint venture for our Australian business with Publishing and Broadcasting Limited (PBL). PBL operates the largest casinos in Australia as well as having a number of major media interests including terrestrial and pay television channels. The joint venture will become active once we have been granted a licence.

We continue to maintain a dialogue with the South African authorities as well as those in Hong Kong, Singapore and Canada. We recognise that it will take time and patience before these markets open up to us.

We are committed to paying the appropriate product fees in every market in which we operate and we have made adequate provision in our accounts for doing so. We continue to hold talks with the relevant bodies and are hopeful of further progress.

Betfair takes social responsibility seriously

As the world's leading betting exchange, Betfair takes its social responsibility very seriously. We are committed to adopting best practice in order to achieve the UK Government's aims in forthcoming gambling legislation, namely to keep the industry crime-free, protect the young and vulnerable and ensure fairness to the consumer. We continue to take training advice from Gamcare, the charity that promotes responsible attitudes to gambling.

Betfair has helped to create the Betting Exchange Trade Association and a Code of Conduct for betting exchanges, both of which have been welcomed by the Government.

The code, which is available on our web site, establishes a socially responsible framework for exchanges and raises the standard for the wider betting industry. We are committed to a rigorous Know Your Customer programme and we expect to be fully compliant with the code by the end of 2004.

Betfair sets new standards for integrity in sport

Integrity in sport is central to Betfair's success and our technology provides regulators with the most up-to-date tools to address corruption in sport.

In 2003 Betfair became the first UK bookmaker to sign a Memorandum of Understanding with the UK Jockey Club, which now forms part of our terms and conditions with our customers. It was a landmark in the history of regulation of the industry and enables us to share information on suspicious betting patterns with the relevant authorities.

We have signed similar agreements with a host of international sports bodies, including the International Cricket Council, the Association of Tennis Professionals, the English Football Association and most recently with the South African National Racing Authority.

We look forward to concluding similar deals with other sports regulators around the world. This openness and transparency is very much part of what our brand stands for.

Focus on technology

The year ended April 2004 saw further significant technical progress and as always, capacity and performance were foremost in our efforts. We made significant investments in our engineering team and in our hardware to increase infrastructure capacity.

Transactions continue to double and page impressions increase rapidly as users become more familiar with the site, programmed trading applications become more popular and our dynamic in-play markets draw more attention. By April 2004, we regularly matched over 1.1m bets on Saturdays.

Improvements to software are equally important. Throughout the year, a portion of the engineering team was dedicated to optimising the core software efficiency. The results could be seen during the Cheltenham Festival in March 2004, which saw record levels of traffic and the systems performed flawlessly.

Distributed Denial of Service attacks by organised criminals were widely publicised in the press. We suffered several attacks but were very satisfied that there was only minimal impact on users. We continue to work with the National High Tech Crime Unit and other major gaming companies to counter this on-going threat.

Product innovation continues

Product innovation remains a priority. Since the end of the financial year, we have launched Betfair Poker, which has been well received. We have attracted 7,000 regular users. The product complements our sports offering and has attracted new users to the exchange.

In June we released our Application Programming Interface (API), which allows bookmakers to integrate their risk management systems with Betfair. The API also enables users to build customised applications. Alongside the internet and the telephone, the API becomes a third channel for placing bets with us.

Striving for excellence in customer service and security

We believe that excellent customer service gives us a distinct advantage over our competition and we will continue to recruit in this area to keep pace with our growing customer base. To accommodate the expansion we have opened a new call centre in Stevenage.

Significant volumes of cash move across our system every day and therefore we have expended considerable resources to underpin the resilience of the site. During the year we have strengthened our disaster recovery and business continuity plans. In addition to our new office in Stevenage, we have established an alternative hosting site.

Update on legislation and tax

In the UK the Gambling Bill is now making its way through Parliament and, barring any setbacks, the Bill should receive Royal Assent in 2005. The Gambling Commission, the new regulator for the industry, is unlikely to be up and running before 2006 but we hope we have anticipated most of its licensing requirements with the code of conduct and by adopting best practice across the company.

The Chancellor announced in the Budget in March 2004 that there would be a review of the tax paid by exchanges. This review is continuing at the time of writing.

Thanks to our staff

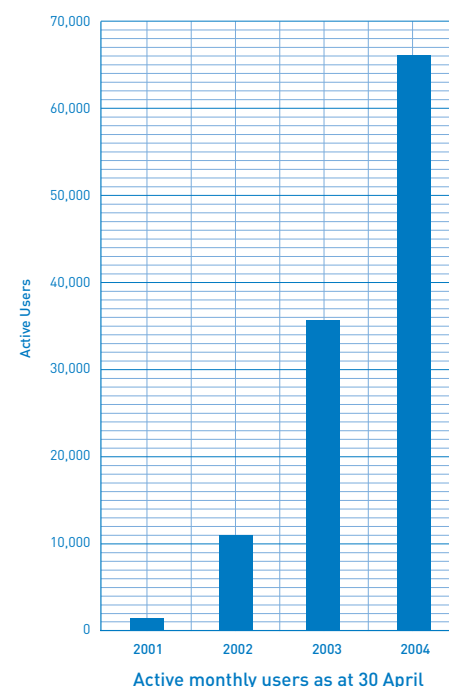
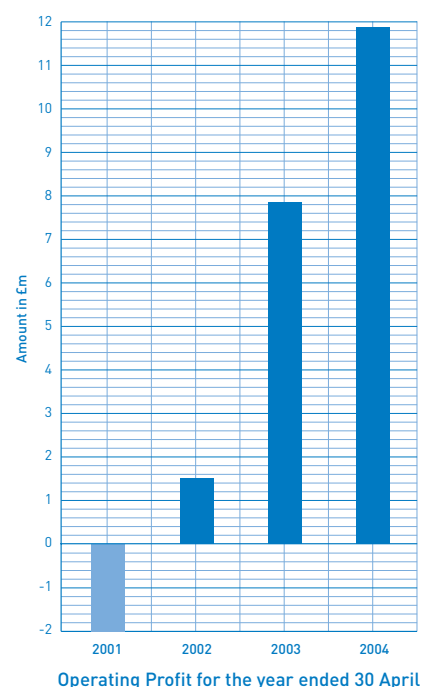
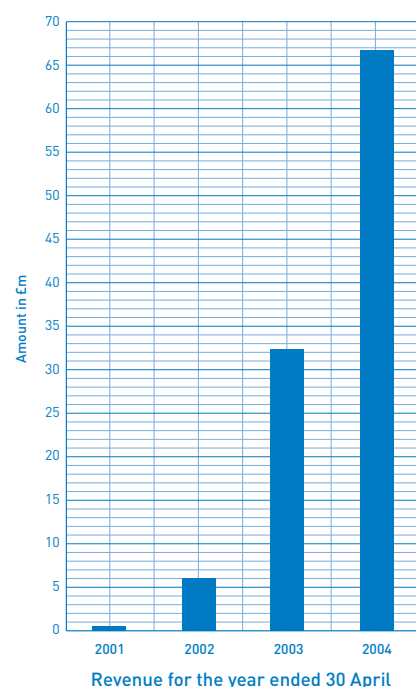
I would like to thank everyone at Betfair for their efforts this year. Betfair continues to grow very quickly, from 212 employees in April 2003 to 406 people in April 2004. Today we employ 450 people, with an average age of 30 years.

We have introduced a Save As You Earn share scheme, which gives everyone the chance to benefit from the success of Betfair. The take-up has been excellent with the result that more than half of those who work for Betfair now own a part of the company as well.

Our journey to transform the gambling industry has only just begun.



Stephen Hill
Chief Executive



Betfair Milestones

2000

JUNE

The Sporting Exchange launches Betfair

Betfair's first market is on The Oaks, won by Love Divine

OCTOBER

Betfair places its first advertisement

2001

MAY

Betfair manages its first in-running soccer market

Betfair becomes exclusive betting exchange provider for the Racing Post

OCTOBER

Betfair launches its telephone betting service

DECEMBER

Betfair merges with Flutter.com

2002

JULY

Betfair sponsors Fulham Football Club

SEPTEMBER

Betfair moves to its new offices in Hammersmith, London

OCTOBER

Andrew Black and Edward Wray, the co-founders of Betfair, are named Ernst and Young Emerging Entrepreneurs of the Year

2003

APRIL

Betfair wins Queen's Award for Enterprise, in the Innovation category, on the recommendation of the Prime Minister and following a full assessment by the Department of Trade and Industry

JUNE

Betfair signs landmark MoU with the UK Jockey Club, aimed at protecting and maintaining the integrity of horseracing

OCTOBER

Betfair signs MoU with Association of Tennis Professionals

NOVEMBER

Betfair signs training initiative with GamCare, the charity which promotes responsible attitudes to gambling

2004

JANUARY

Betfair signs MoU with International Cricket Council

MARCH

Betfair signs MoU with the English Football Association

APRIL

Betfair signs MoU with Cricket Australia

MAY

Betfair launches its poker site

JULY

Betfair signs joint venture with Australia's Publishing and Broadcasting Limited

SEPTEMBER

Betfair successfully migrates 300,000 customers to Betex, its new platform

Betfair sponsors St Leger, the world's oldest Classic

Betfair signs MoU with the South African Racing Authority

NOVEMBER

Betfair opens second office in Stevenage

Board of Directors

Sir Robert Horton

joined Betfair as non-executive Chairman in March 2004. Sir Robert has held a number of senior executive positions in a global career spanning four decades. He is a former Chairman and Chief Executive of BP plc and Chairman of Railtrack plc.

Stephen Hill

has been Betfair's Chief Executive since July 2003. He was previously Chief Executive of the Financial Times Group during a 15-year career with Pearson plc. Stephen is also a non-executive director of Psion plc.

Owen O'Donnell

has been Chief Financial Officer of Betfair since November 2003 and was appointed to the board in June 2004. Between 1997 and 2003 he was Finance Director in a variety of operational roles within Pearson plc. Owen is a Chartered Accountant.

Andrew Black

is the co-founder of Betfair. Betfair's unique bookmaking model is his brainchild. Andrew has developed software for numerous organisations and has worked as a trader in the City. He is a long-time gambler and has shares in six racehorses.

Edward Wray

is the co-founder of Betfair and was its Chief Executive for the first three years. He is now spearheading Betfair's international expansion. From 1991 to 1999 Edward worked for JP Morgan in the bank's Debt Capital Markets and Derivatives division.

Chris Batterham

is a Chartered Accountant and has experience as a director of listed companies in both an executive and non-executive capacity. He is CFO of Searchspace Group Ltd, a leader in anti-money laundering software. He is Chairman of the Audit Committee.

Josh Hannah

was the Chief Executive and co-founder of Flutter.com. After the merger of Flutter with Betfair in December 2001 he became a non-executive director of Betfair. He is now Entrepreneur in Residence at Benchmark, a US technology venture capital firm. He is a member of the Remuneration Committee.

Nicholas Irens

was appointed to the board in October 2004. He is Chairman of Northgate Information Solutions, Chairman of Westminster Health Care Holdings and Chairman of Esporta Ltd. Prior to this he was Chairman of Cannons Group plc.

Richard Koch

is an entrepreneur and author. He was co-founder of LEK Consulting and is non-executive Chairman of Robson Rhodes Business Consulting and also holds several non-executive directorships.

Greg Lockwood

joined the board after the merger of Betfair and Flutter in December 2001. He is the Chief Executive of Formula Vertex, a private equity firm. He previously worked for UBS in investment banking and technology investment. He is Chairman of the Remuneration Committee and a member of the Audit Committee.



THE QUEEN'S AWARDS
FOR ENTERPRISE:
INNOVATION
2003

Report and Accounts

Directors and Advisers

DIRECTORS

Sir Robert Horton (Non-executive Chairman)
 Stephen Hill (Chief Executive Officer)
 Owen O'Donnell (Chief Financial Officer)
 Andrew Black (Founder)
 Edward Wray (Founder)
 Chris Batterham (Non-executive)
 Josh Hannah (Non-executive)
 Nicholas Irens (Non-executive)
 Richard Koch (Non-executive)
 Greg Lockwood (Non-executive)

SECRETARY

Martin Cruddace

PRINCIPAL PLACE OF BUSINESS

Waterfront, Hammersmith Embankment
 Winslow Road, London, W6 9HP

AUDITORS

KPMG LLP
 8 Salisbury Square, London, EC4Y 8BB

PRINCIPAL BANKERS

Royal Bank of Scotland plc
 280 Bishopsgate, London, EC2M 4RB

PRINCIPAL SOLICITORS

Freshfields Bruckhaus Deringer
 65 Fleet Street, London, EC4Y 1HS

REGISTRARS AND TRANSFER OFFICE

Lloyds TSB Registrars
 The Causeway, Worthing, West Sussex, BN99 6DA

Registered number 03770548 / 30 April 2004

Directors' Report

The directors present their annual report with the accounts of the group for the year ended 30 April 2004.

Principal activities

The principal activity of the group in the year under review was that of a licensed bookmaker.

Business review

The directors are satisfied with the performance of the business over the last financial year. The directors believe that the group is well prepared to take advantage of future market opportunities.

Proposed dividend

The directors do not recommend the payment of a dividend (2003: £nil).

Directors and directors' interests

The directors and their beneficial interests in the group at the balance sheet date and the beginning of the year (or on appointment if later) were as follows:

		At 30 April 2004	At 1 May 2003
Edward Wray	Ordinary shares of 0.1p	14,725,000	16,325,000
Andrew Black	Ordinary shares of 0.1p	14,822,500	16,575,000
Richard Koch	Ordinary shares of 0.1p	8,592,238	6,000,000
Josh Hannah	'A' Ordinary shares of 0.1p	1,097,478	1,195,620
Chris Batterham	Ordinary shares of 0.1p	225,000	250,000
Greg Lockwood	Ordinary shares of 0.1p	-	-
Stephen Hill	Ordinary shares of 0.1p	-	-
Sir Robert Horton (appointed 29th March 2004)	Ordinary shares of 0.1p	-	-
Owen O'Donnell (appointed 22nd June 2004)	Ordinary shares of 0.1p	-	-
Nicholas Irens (appointed 1st October 2004)	Ordinary shares of 0.1p	-	-

On the 11th May 2004 Sir Robert Horton purchased 100,000 Ordinary shares, of 0.1p each.

Stephen Hill has a partial interest in 3,125,892 shares held on his behalf by an Employee Benefit Trust. No other director has any interests in any shares other than detailed above.

Charitable contribution

During the year, the group made charitable contributions totalling £26,000 (2003: £20,000).

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution re-appointing KPMG LLP as auditors for the ensuing year will be placed before the annual general meeting.

On behalf of the board



Stephen Hill
 Director

Waterfront, Hammersmith Embankment, Winslow Road, London, W6 9HP
 12th October 2004

Statement of Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and of the profit or loss of the group for that period.

In preparing those consolidated financial statements, the directors are required to:

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

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



Report of the independent auditors to the members of the Sporting Exchange Limited

We have audited the financial statements on pages 16-24.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 14, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 April 2004 and of the profit for the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
Chartered Accountants
Registered Auditor

12th October 2004

Consolidated profit and loss account for the year ended 30 April 2004

	Note	2004 £'000	2003 £'000
Revenue		66,725	32,319
Cost of sales		(17,646)	(5,813)
Gross profit		49,079	26,506
Administrative expenses		(37,203)	(18,668)
Operating profit		11,876	7,838
Interest receivable and similar income	3	1,402	868
Profit on ordinary activities before taxation	2	13,278	8,706
Tax on profit on ordinary activities	6	(2,759)	(1,188)
Retained profit for the year	15	10,519	7,518

All activities relate to continuing operations in the current and previous year

Consolidated cash flow statement for the year ended 30 April 2004

	Note	2004 £'000	2003 £'000
Net cash inflow from operating activities	16	18,648	9,976
Returns on investments and servicing of finance			
Interest received		1,362	868
Taxation paid		(2,824)	(36)
Capital expenditure			
Payments to acquire tangible fixed assets		(4,750)	(3,311)
Net cash inflow before financing		12,436	7,497
Financing			
Issue of shares		430	28
Increase in cash in the year		12,866	7,525

Consolidated and Company balance sheets as at 30 April 2004

	Note	Consolidated		Company	
		2004 £'000	2003 £'000	2004 £'000	2003 £'000
Fixed assets					
Tangible assets	7	5,889	3,005	5,889	3,005
Investments	8	-	-	7,217	7,214
		5,889	3,005	13,106	10,129
Current assets					
Debtors	9	2,903	2,133	2,903	2,133
Cash at bank and in hand		32,286	19,420	24,931	12,262
		35,189	21,553	27,834	14,395
Creditors: amounts falling due within one year	10	(10,570)	(5,479)	(10,260)	(5,176)
Net current assets		24,619	16,074	17,574	9,220
Total assets less current liabilities		30,508	19,079	30,680	19,439
Provision for liabilities and charges	11	(289)	(240)	(289)	(240)
Net assets		30,219	18,839	30,391	19,199
Capital and reserves					
Called up share capital	12	98	97	98	97
Share premium account	14	5,620	5,191	5,620	5,191
Merger reserve	14	6,733	6,733	6,733	6,733
Profit and loss account	15	17,768	6,818	17,940	7,178
Equity shareholders' funds		30,219	18,839	30,391	19,199

These financial statements were approved by the board of directors on 12th October 2004 and were signed on its behalf by Stephen Hill (Director)


Statement of total recognised gains and losses for the year ended 30 April 2004

	2004 £'000	2003 £'000
Total recognised gains relating to the financial year	10,519	7,518
Currency translation differences	(28)	(2)
Total gains and losses recognised since last annual report	10,491	7,516

Reconciliation of movements in shareholders' funds for the year ended 30 April 2004

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Profit for the financial year	10,519	7,518	10,303	7,265
Movement in reserves for employee share schemes	459	111	459	111
Issue of shares	430	27	430	27
Currency translation differences	(28)	(2)	-	-
Net addition to shareholders' funds	11,380	7,654	11,192	7,403
Opening shareholders' funds	18,839	11,185	19,199	11,796
Closing shareholders' funds	30,219	18,839	30,391	19,199

Notes

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements except as noted below.

Basis of preparation

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

on or after 6 April 1999 under its unapproved share option schemes in accordance with UITF 25 National Insurance on share options gains. The expected charge is allocated over the period in which the options vest on a straight line basis.

Basis of consolidation

The consolidated financial statements incorporate those of the holding company and its subsidiaries for the year ended 30 April 2004 and 2003.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Computer equipment	-	33% straight line
Fixtures and fittings	-	20% straight line
Leasehold improvements	-	over the term of the lease
Motor vehicles	-	33% straight line

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Website development costs

The group's website is central to its operation and is subject to constant updating and improvement. As such, the directors take the view that the prudent approach is to write off all website development costs in the year in which they occur.

In accordance with Section 230 of the Companies Act 1985, the company is exempt from the requirement to present its own profit and loss account. The company's retained profit for the financial year was £10.3m (2003: £7.3m).

Goodwill

On the acquisition of a business fair values are attributed to the separable net assets acquired. Goodwill arises where the fair value of the consideration given and associated costs for a business exceeds the fair value of such net assets. Goodwill is capitalised and amortised to the profit and loss account in equal instalments over its estimated useful life, not to exceed 20 years.

Leasing and hire purchase commitments

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

Revenue

Revenue represents the total commission income from the provision of the group's bookmaking service for the year. Revenue is recognised on the date the market is settled.

On the subsequent disposal or termination of a business, the profit or loss on disposal or termination is calculated after charging the amortised amount of any related goodwill.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Investments

Fixed asset investments are stated at cost less any provision for impairment.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Employee share schemes

The cost of performance related awards to employees that take the form of options or rights to acquire or receive shares is recognised over the period of the employees' related performance. The cost represents the difference between the share option/right exercise price (if any) and the market value of the shares at the date of grant. Where there is no performance criteria, the cost is recognised over the period in which the employees' services are received.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

The group provides for National Insurance contributions, where necessary, on options which were granted to certain employees

Cash and liquid resources do not include client funds deposited in a stakeholder account held by The Sporting Exchange (Clients) Limited,

a wholly-owned subsidiary of the Group, on the basis that they are held on trust for customers and do not belong to and are not at the disposal of the Group. At 30 April 2004 £66.4m (2003: £27.3m) was held on trust in ring-fenced accounts in The Sporting Exchange (Clients) Ltd on behalf of its customers.

rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the consolidated profit and loss account.

Foreign Currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the

Exchange differences arising on the translation of the net assets and profit and loss accounts of non-UK companies, together with exchange differences on related borrowings are accounted for through reserves.

All other exchange differences are taken to the profit and loss account.

2. Profit on ordinary activities before taxation

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of fixed assets	1,866	639
Auditors' remuneration:		
Audit	204	69
Other services	92	10
Rentals payable under operating leases for equipment	453	58
Other operating lease rentals	992	480
Research and development expenditure	2,765	1,494
Gross Profits Tax	9,282	2,373
UK Horse racing levy	3,897	2,515

3. Other interest receivable and similar income

	2004 £'000	2003 £'000
Bank interest receivable	1,402	868

4. Staff numbers and costs

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

	Number of employees	
	2004	2003
Management and administration	21	9
Engineering	77	35
Operations	164	94
Marketing	25	10
	<u>287</u>	<u>148</u>

The aggregate payroll costs of these persons were as follows:

	2004 £'000	2003 £'000
Wages and salaries	11,492	6,180
Social security costs	1,459	663
	<u>12,951</u>	<u>6,843</u>

5. Directors' Remuneration

	2004 £'000	2003 £'000
Emoluments	652	494

The highest paid Director was paid total emoluments of £269,000 (2003: £228,000)

6. Taxation**Analysis of tax charge for the year**

	2004 £'000	2003 £'000
UK Corporation tax charge	2,769	1,678
Deferred tax (see note 9)	(10)	(490)
	<u>2,759</u>	<u>1,188</u>

Factors affecting the tax charge for the current year

The current effective tax charge for the year is 21% (2003:19.3%) which is lower than the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are explained below.

	2004 £'000	2003 £'000
Current tax reconciliation		
Profit on ordinary activities before tax	13,278	8,706
Current tax at 30% (2003: 30%)	3,983	2,612
Effects of:		
Expenses not deductible for tax purposes	228	95
Capital allowances in excess of depreciation	10	(52)
Utilisation of tax losses	(213)	(1,013)
Adjustments to tax charge in respect of previous periods	(281)	36
Deductions for gains on exercise of share options	(958)	-
Current tax charge	<u>2,769</u>	<u>1,678</u>

7. Tangible fixed assets

Company and Group	Leasehold improvements	Computer equipment	Fixtures and fittings	Motor Vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At beginning of year	653	2,486	604	-	3,743
Additions	1,063	3,449	194	44	4,750
At end of year	<u>1,716</u>	<u>5,935</u>	<u>798</u>	<u>44</u>	<u>8,493</u>
Depreciation					
At beginning of year	90	507	141	-	738
Charge for year	257	1,424	181	4	1,866
At end of year	<u>347</u>	<u>1,931</u>	<u>322</u>	<u>4</u>	<u>2,604</u>
Net book value					
At 30 April 2004	1,369	4,004	476	40	5,889
At 30 April 2003	563	1,979	463	-	3,005

8. Fixed asset investments

Company	2004 £'000	2003 £'000
Shares in group undertakings:		
Cost at beginning of year	7,764	7,764
Additions	3	-
Cost at end of year	7,767	7,764
Provisions for impairment	(550)	(550)
Net book value	<u>7,217</u>	<u>7,214</u>

The companies in which the group's interest at the year end is more than 20% are as follows:

Subsidiary undertaking	Country of incorporation	Principal activity	Class of share and percentage held
The Sporting Exchange (Clients) Ltd	England	Non trading	Ordinary shares 100%
Insightmarket Ltd (formerly Flutter.com Ltd)	England	Non trading	Ordinary shares 100%
SEL (Curacao) N.V	Curacao	Online poker	Ordinary shares 100%

9. Debtors

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Other debtors	1,114	653	1,114	653
Prepayments	965	666	965	666
Net deferred tax asset	824	814	824	814
	<u>2,903</u>	<u>2,133</u>	<u>2,903</u>	<u>2,133</u>

Amounts falling due after more than one year included in the above are:

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Rental deposits	935	562	935	562
Deferred tax asset	630	630	630	630
Total amounts falling due after more than one year	<u>1,565</u>	<u>1,192</u>	<u>1,565</u>	<u>1,192</u>

The elements of the net deferred tax asset are as follows:

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Capital allowances in advance of depreciation	(121)	(131)	(121)	(131)
Tax losses	945	945	945	945
	<u>824</u>	<u>814</u>	<u>824</u>	<u>814</u>

Movements in amounts provided are as follows:

	2004 £'000	2003 £'000
At 1 May 2003	814	324
Capital allowances in advance of depreciation	10	(52)
Recognition of tax losses	213	945
Utilisation of tax losses	(213)	(403)
At 30 April 2004	<u>824</u>	<u>814</u>

10. Creditors: amounts falling due within one year

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Trade creditors	1,926	878	1,926	878
Corporation tax	1,586	1,642	1,586	1,642
Other creditors including taxation and social security	1,038	247	1,038	247
Accruals	6,020	2,712	5,710	2,409
	<u>10,570</u>	<u>5,479</u>	<u>10,260</u>	<u>5,176</u>

11. Provisions for liabilities and charges

Company and group	2004 £'000	2003 £'000
At beginning of year	240	67
Additional amounts provided	49	173
At end of year	<u>289</u>	<u>240</u>

In accordance with UITF 25 the group is providing for Employers' National Insurance payable on unapproved share options granted. The price is dependent on the timing of any future exercises and market value at the date of exercise in those cases where the liability has not been passed onto the employee.

12. Called up share capital

	2004 £'000	2003 £'000
Authorised		
200,000,000 Ordinary shares of 0.1p each	200	200
30,074,210 Convertible 'A' ordinary shares of 0.1p each	30	30
	<u>230</u>	<u>230</u>
Allotted, called up and fully paid		
68,437,737 Ordinary shares of 0.1p each	68	67
29,877,030 Convertible 'A' ordinary shares of 0.1p each	30	30
	<u>98</u>	<u>97</u>

During the year the group issued 1,325,042 Ordinary shares and 245,760 'A' Ordinary shares. Cash received for the issue of these Ordinary shares and 'A' Ordinary shares amounted to £321,000 and £114,000 respectively. All of the shares issued were the result of share options exercised.

The 'A' ordinary shares rank pari passu with the Ordinary shares in all respects. They may be converted into deferred shares with no entitlement to participate in voting or the profits of the group, such conversion is contingent on certain conditions not being fulfilled in the group's acquisition of Flutter.com LLC. They may also be converted into ordinary shares. Conversion into ordinary shares will happen either on the listing of the group's shares on a recognised investment exchange, or on the occurrence of certain conditions within the shareholders

agreement. Prior to any conversion the group will need to include deferred shares in the authorised share capital.

On the 22 June 2004 all 'A' Ordinary shares were converted into Ordinary shares, and all authorised but unissued 'A' Ordinary shares were cancelled, following appropriate resolutions.

13. Share options

The group has share option schemes for its employees and has granted options under the terms thereof as indicated below. Options remain outstanding as at 30 April 2004 in respect of 6,087,713 shares in the capital of the group which are exercisable up to 29 April 2014.

Options in Ordinary shares of 0.1p

Date granted	At 1 May 2003	Granted during the year	Lapsed/ cancelled during the year	Exercised	At 30 April 2004	Exercise Price £	Exercisable before
2000	958,340	-	-	(125,000)	833,840	0.001	2010
2000	448,980	-	(74,180)	(245,760)	129,040	0.1 to 2.03	2011
2001	407,500	-	-	(295,620)	111,880	0.001	2011
2001	1,253,000	-	-	(242,160)	1,010,840	0.25	2011
2002	3,792,500	-	(51,875)	(569,225)	3,171,400	0.25 to 0.40	2012
2003	563,000	-	(20,625)	(36,287)	506,088	0.40 to 2.00	2013
2004	-	400,000	(18,125)	(56,750)	325,125	0.40 to 2.25	2014
	7,423,320	400,000	(164,805)	(1,570,802)	6,087,713		

14. Share premium account and merger reserve

Company and group	Share Premium Account 2004 £'000	Merger Reserve 2004 £'000
	Balance at beginning of year	5,191
Premium on shares issued during the year	429	-
Balance at end of year	<u>5,620</u>	<u>6,733</u>

15. Profit and loss account

	Group 2004 £'000	Company 2004 £'000
As at 1 May 2003	6,818	7,178
Profit for the year	10,519	10,303
Charge in relation to employee share schemes	459	459
Currency translation differences	(28)	-
Accumulated profit as at 30 April 2004	<u>17,768</u>	<u>17,940</u>

16. Cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2004 £'000	2003 £'000
Operating profit	11,876	7,838
Depreciation charge	1,866	639
Net cash outflow for increase in debtors	(730)	(1,244)
Net cash inflow for increase in creditors	5,205	2,634
Cost of employee share schemes	459	111
Currency translation differences	(28)	(2)
Net cash inflow from operating activities	<u>18,648</u>	<u>9,976</u>

(b) Reconciliation of net cash flow to movement in net funds

	2004 £'000	2003 £'000
Increase in cash in the year	12,866	7,525
Net funds at beginning of year	<u>19,420</u>	<u>11,895</u>
Net funds at end of year	<u>32,286</u>	<u>19,420</u>

17. Commitments

Annual commitments under non-cancellable operating leases are as follows:

Company and group	2004	2003
	Land and buildings £'000	Land and buildings £'000
Operating leases which expire:		
Within one year	109	-
In the second to fifth years inclusive	<u>1,151</u>	<u>618</u>
	<u>1,260</u>	<u>618</u>

Five-year summary

For the year ended 30 April

	2004 £'000	2003 £'000	2002 £'000	2001 £'000	2000* £'000
Revenue	66,725	32,319	6,090	480	-
Operating profit (loss)	11,876	7,838	1,511	(2,014)	(240)
Profit (loss) before tax	13,278	8,706	1,759	(1,968)	(236)
Profit (loss) after tax	10,519	7,518	1,760	(1,968)	(236)

* 2000 figures are for the 10 months to 30 April 2000