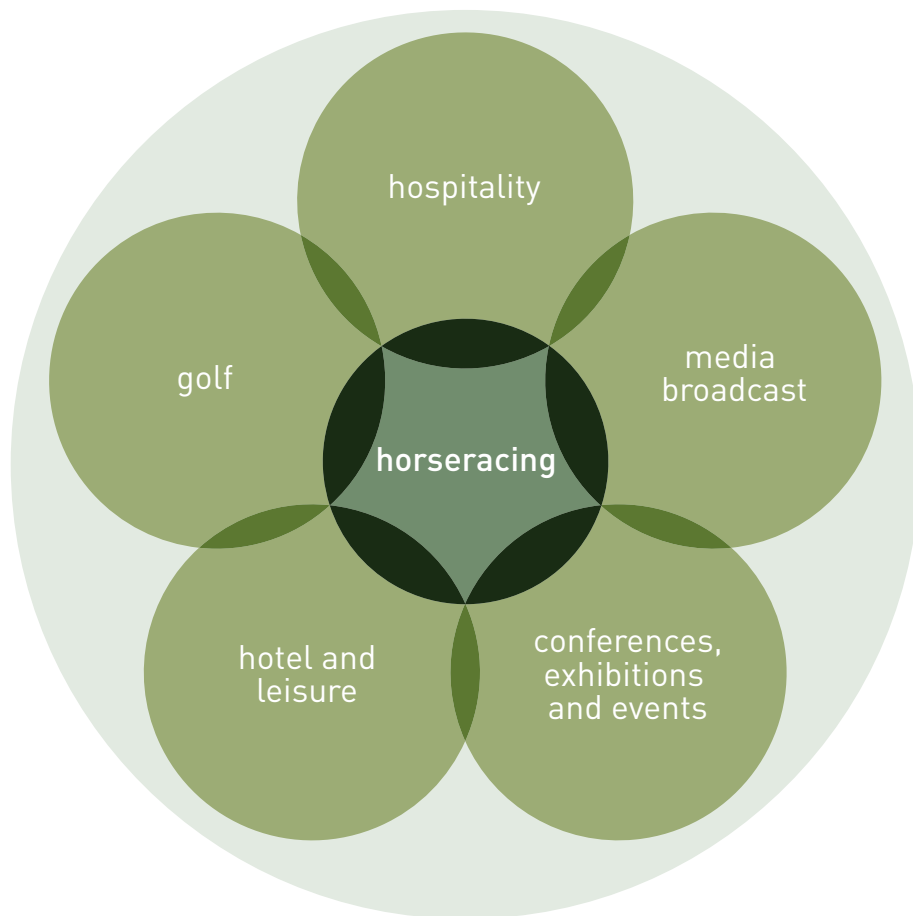




**Horseracing lies at the heart of Arena's activities. Our portfolio of racecourse assets provides a solid base for the future development of the Group into a range of complementary, income-generating activities that enhance our racing business and allow the expansion of our racecourses into 365 days a year operations.**



## 2008 Highlights

### Financial highlights

Revenue

**£64,825,000**

2007: £57,920,000

Profit before interest and tax

**£7,444,000**

2007: £6,002,000

### Operational highlights

Total attendance up by 12% and average attendance up by 7%, outperforming the industry.

In-house catering delivers quality, service and profit improvements.

### Development highlights

Lingfield Park hotel and leisure development on track for Spring 2010 opening.

Surplus land and development opportunities offer future potential.

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## Arena at a Glance

We have three core values that drive the development of our business. These core values of passion, innovation and excellence have been instrumental in developing Arena into the business it is today and will continue to drive its growth in the future.

### passion, innovation, excellence



#### Doncaster

The home of the world's oldest classic horse race, the St Leger, featuring an extensive redevelopment of the racing and exhibition facilities. Hotel and residential development planning permission received.

#### Folkestone

Kent's only racecourse set in beautiful scenery in the North Downs.

#### Lingfield Park

Set in 450 acres of Surrey countryside, construction has commenced on a new hotel and leisure complex, which will create a state-of-the-art racing, conferencing and leisure destination by Spring 2010.

#### Royal Windsor

Located beside the River Thames, within sight of Windsor Castle and boasting a series of highly popular summer Monday evening race meetings.

|                | Racing profile                                  | Annual attendance (2008) | % of UK meetings (2008) |
|----------------|---|--------------------------|-------------------------|
| Doncaster      | Turf flat and National Hunt racing              | 199,000                  | 2%                      |
| Folkestone     | Turf flat and National Hunt racing              | 32,000                   | 2%                      |
| Lingfield Park | All-weather, turf flat and National Hunt racing | 120,000                  | 6%                      |
| Royal Windsor  | Turf flat racing                                | 117,000                  | 2%                      |
| Southwell      | All-weather, turf flat and National Hunt racing | 76,000                   | 6%                      |
| Wolverhampton  | Floodlit all-weather racing                     | 70,000                   | 7%                      |
| Worcester      | Turf flat and National Hunt racing              | 30,000                   | 1%                      |
| At The Races   | Broadcasting UK, Irish and international racing |                          |                         |

**Key**

- ✓ In operation
- Proposed



**Southwell**  
Friendly East Midlands venue offering a variety of racing, conferencing and golf facilities.

**Wolverhampton**  
The UK's busiest racecourse and one of only three floodlit courses in the UK, boasting a hotel and extensive exhibition and conferencing facilities. Planning approval received to create the UK's first combined racecourse, hotel and casino complex.

**Worcester**  
A picturesque tree-lined course with a unique position on the banks of the River Severn.

**At The Races**  
The UK's award-winning dedicated racing channel, taking UK and Irish racing to the widest possible national and international audience.

| Corporate hospitality | Conferencing & banqueting | Exhibitions & events | Hotels | Leisure | Golf |
|-----------------------|---------------------------|----------------------|--------|---------|------|
| ✓                     | ✓                         | ✓                    | ●      |         |      |
| ✓                     | ✓                         | ✓                    |        |         |      |
| ✓                     | ✓                         | ✓                    | ●      | ●       | ✓    |
| ✓                     | ✓                         | ✓                    | ●      |         |      |
| ✓                     | ✓                         | ✓                    |        |         | ✓    |
| ✓                     | ✓                         | ✓                    | ✓ ●    | ●       |      |
| ✓                     | ✓                         | ✓                    |        |         |      |



## Chairman's Statement

Despite one of the toughest trading years in our recent history, attendances at Arena racecourses have continued to outperform racing industry trends. The fundamentals of Arena's business are sound and the Group remains an efficient and well-run business.

**Raymond Mould** Chairman

We have taken – and will continue to take – actions to realign the cost base to reflect current market conditions and we have made good progress on our real estate strategy, most notably with the commencement of construction on the Lingfield Park hotel and leisure development.

Revenue in the year to 31 December 2008 increased by 12% to £64.8m (2007: £57.9m), principally as a result of the in-house catering business and the reopened Doncaster Racecourse operating throughout the period (2007: nine months and five months, respectively). In the first three months of 2007, catering was outsourced and, as a consequence, catering revenue over that period represented only commission-related income.

Profit before interest and tax increased by 24% to £7.4m (2007: £6.0m), after recognising a £1.7m gain on the sale of the freehold interests in the caravan park and marina at Royal Windsor Racecourse in December 2008. Adjusted profit before tax and adjusted earnings per share (both excluding a number of one-off, non-cash items that impact reported finance cost) increased by 14% to £5.9m (2007: £5.2m) and by 13% to 1.64p (2007: 1.45p), respectively.

We again staged over one-quarter of all UK racing fixtures (2008: 26%, 2007: 26%). Our total attendance increased by 12% to 644,000 (2007: 573,000) and our average attendances increased by 7% to 1,773 (2007: 1,652). Compared to the industry performance over the same period, this is an excellent result, with the total attendance at all UK racecourses falling by 2% to 5.7 million (2007: 5.8 million) and average attendances down

by 8% at 4,017 (2007: 4,376). At the racecourse operations level, operating profit before the profit on the sale of the freehold interests at Royal Windsor Racecourse fell by 7% to £7.7m (2007: £8.4m, profit before impairment losses), which was predominantly driven by the impact of lost revenues from the shortfall in private hospitality business during the year.

The catering operation, which was brought in-house from April 2007, has successfully completed its first full year and is delivering clear operational benefits and, importantly, improvements in customer service, food quality and profitability.

Following flood damage in 2007, the refurbishment work at Southwell Racecourse completed in July 2008 and the Racecourse is now fully operational.

At The Races ('ATR'), in which Arena owns a 45.85% stake, continues to perform well with Arena's share of ATR's operating profit increasing to £0.6m (2007: £0.2m). Arena's share of ATR's first post-tax profit was £0.3m (2007: £0.2m loss).

During the year, Arena raised an additional £23.0m debt facility through a five-year term loan that is initially being used to finance the Lingfield Park development. This brought the Group's total available bank facilities, including overdrafts, to £61.0m at 31 December 2008, of which the earliest loan maturity is for a £10.0m credit facility in October 2010. The Group is projected, taking into account reasonable possible changes in trading performance, to be able to operate within the level and covenant conditions of these facilities.

### Financial key performance indicators

| Revenue (£m) |      | Profit before interest and tax (£m) |     | Adjusted earnings per share (p) |      |
|--------------|------|-------------------------------------|-----|---------------------------------|------|
| 2008         | 64.8 | 2008                                | 7.4 | 2008                            | 1.64 |
| 2007         | 57.9 | 2007                                | 6.0 | 2007                            | 1.45 |
| 2006         | 45.3 | 2006                                | 5.6 | 2006                            | 1.49 |
| 2005         | 40.7 | 2005                                | 4.9 | 2005                            | 1.32 |

## Key highlights 2008

- Total attendances at the Group's racecourses increased by 12% to 644,000 (2007: 573,000), significantly outperforming the UK racing industry as a whole which has seen aggregate attendances down by 2%.
- The in-house catering operation successfully completed its first full year and is delivering clear operational benefits as well as improvements in customer service, food quality and profitability.
- At The Races continued to perform well and contributed a first post-tax profit of £0.3m (2007: £0.2m loss).
- Construction commenced in May 2008 on a 116-bedroom hotel and leisure development at Lingfield Park, which remains on schedule and on budget. A franchise agreement has been signed with Marriott International to operate this hotel upon completion, anticipated in Spring 2010.

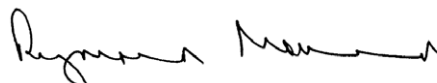
The Board has considered the conditions existing in the credit markets, the expected development obligations of the Group and the maturity of the £10.0m credit facility in October 2010 and has decided that it is prudent not to pay a final dividend for 2008 (2007: 0.30p per share). An interim dividend of 0.25p per share (2007: 0.25p per share) was paid during the year resulting in a total dividend for the year of 0.25p per share (2007: 0.55p per share).

There were two new additions to the Board during the year. Tony Harris joined as Finance Director on 1 May 2008 and Andrew Page joined as a Non-Executive Director on 1 December 2008 and, with effect from 1 January 2009, also became Chairman of the Audit Committee. Martin McGann retired from his position as Non-Executive Director and Chairman of the Audit Committee at Arena, with effect from 31 December 2008, and I would like to thank Martin for his considerable input during his time with us.

The Board is extremely grateful for the hard work and dedication of all Arena's staff, who continue to demonstrate passion and enthusiasm for both our business and our customers, and looks forward to their ongoing commitment to the future success of Arena.

Trading in the year to date has been in line with the Board's expectations. Despite weather disruption and abandonments across the industry, we have benefited from the nature of our all-weather weighted portfolio and our ability to pick up transferred fixtures at late notice.

The challenging trading conditions experienced during 2008 are expected to continue during 2009. Whilst we have seen good early interest in bookings for the St Leger meeting in September, we continue to expect our private hospitality business to remain subdued, particularly through the summer months. Arena will continue to make good progress on its development projects through 2009, as well as preparing for a successful opening of the Lingfield Park hotel and leisure development in Spring 2010.



**Raymond Mould**  
Chairman  
18 March 2009



## Chief Executive's Statement and Review of Operations

Whilst not immune to the current economic conditions, the fundamental strengths of Arena's business mean that we will be able to maintain our core operations and progress exciting development opportunities through what is likely to be a difficult trading environment over the next year.

**Mark Elliott** Chief Executive

Arena is uniquely positioned as:

- An industry-leading operational business that stages over one-quarter of all UK horseracing fixtures with experienced and driven people who are dedicated to providing outstanding service to all our customer groups;
- A high-quality and well-maintained portfolio of seven racecourses, including three of the country's all-weather tracks, as well as the newly redeveloped Doncaster Racecourse – the home of the Ladbrokes St Leger, the oldest 'classic' horserace;
- A broadening range of income streams that encompass racing industry funding from the Levy, contracted media rights, admission-related revenues and catering spend, as well as incremental revenue from hotels, non-raceday events and the provision of third-party services to other racecourses;
- A newly established catering business which is already renowned for its food quality and customer service and which allows us to provide a broader and more flexible range of offerings to the race-goer, as well as the efficient management of our cost base;
- An exciting portfolio of development opportunities, typified by the Lingfield Park hotel and leisure development that is due to open in Spring 2010; and
- A highly cash-generative business that delivered profit before interest, tax and depreciation in 2008 of £10.8m [profit before interest and tax of £7.4m, depreciation of £3.4m], [2007: £9.7m, profit before interest and tax of £6.0m, depreciation of £2.6m and impairment charge of £1.1m].

The year 2008 saw the business produce a profit before interest and tax of £7.4m, 24% ahead of the previous year (2007: £6.0m). This includes a £1.7m gain on the sale of the freehold interest in the caravan park and marina at Royal Windsor Racecourse. The 2007 profit was stated after recognising a £1.4m surplus on property damage insurance proceeds over the value of assets written off following the flood damage at Southwell Racecourse and after providing £1.1m against the carrying value of costs relating to plans for the future development of Royal Windsor Racecourse. Adjusting for the gain on sale in 2008 and both the insurance surplus and the impairment provision in 2007, profit before interest and tax for the year, on an adjusted basis, increased slightly to £5.8m (2007: £5.7m).

### Review of operations

Arena's racecourse operations delivered an operating profit in 2008 of £7.7m (2007: £8.4m) before the gain on sale of the freehold interests in the marina and caravan park at Royal

Windsor Racecourse. This reflects the impact of reduced private hospitality and catering spend. The total number of hospitality customers reduced by 14% to 53,700 (2007: 62,700). This reduction in our high-value business particularly affected Royal Windsor and Lingfield Park Racecourses. The 2008 figure includes a £0.6m (2007: £1.4m) contribution from the business interruption insurance proceeds received in 2007 following the extensive flooding at Southwell Racecourse and reflects the fact that the Racecourse was not fully operational until July 2008. In 2007, the Group incurred start-up costs of £0.8m (2008: £nil) relating to the catering operation and the reopening of Doncaster Racecourse.

Arena staged 363 fixtures during the period (2007: 347 fixtures), an increase of 5%, representing over one-quarter of all UK racing fixtures (2008: 26%, 2007: 26%). Total attendances increased by 12% to 644,000 (2007: 573,000), with the average attendance rising 7% to 1,773 (2007: 1,652). Doncaster Racecourse reopened in August 2007 and operated a full calendar of 30 fixtures in 2008 (2007: nine, although 20 of the remainder were staged at other Arena racecourses). Compared to the industry performance over the same period, this is an excellent result, with the total attendance at all UK racecourses falling by 2% to 5.7 million (2007: 5.8 million) and average attendances down by 8% to 4,017 (2007: 4,376).

Nevertheless, attendances at Doncaster Racecourse in 2008, following its reopening in August 2007 after a 19-month closure for redevelopment, were noticeably impacted by the extended period of closure combined with the economic downturn and have yet to return to pre-closure levels. Poor weather resulted in one fixture being lost in the early part of 2008 and a considerably lower than expected attendance at the Lincoln meeting over the early Easter weekend in March, which was also subject to snowfall. Trading at Doncaster Racecourse tends to be weighted towards the second half, which includes the important four-day St Leger meeting in September. Total attendance over the meeting's four days was 59,000 (2007: 66,000), including a crowd of 26,000 (2007: 31,000) for the St Leger itself. Despite attendances being lower than at the reopening St Leger in 2007, measures taken ensured that the event delivered a higher profit in 2008. Following the successful staging of a Madness concert after racing in June 2008, which attracted 15,000 people, we anticipate staging further such concerts in 2009.

Doncaster Racecourse attendances were 199,000 (2007: 102,000) from its 30 fixtures (2007: nine). Attendances at Arena's six other racecourses were 445,000 (2007: 471,000) from 333 fixtures (2007: 338, including 20 fixtures transferred during the closure of Doncaster Racecourse for redevelopment). The additional fixtures in the period were largely staged at our all-weather courses; of these, 34 (2007: 17) were new winter evening fixtures, largely staged to provide additional live racing to UK betting shops. Attendances at these fixtures tended to be low as were those at the 17 transferred Great Leighs fixtures in the early part of the year. As a consequence, the average attendance across Arena's six racecourses, excluding Doncaster Racecourse, reduced by 4% to 1,334 (2007: 1,392), still ahead of the UK racing industry as a whole.

Following flood damage in 2007, the refurbishment work at Southwell Racecourse was completed in July 2008 and the Racecourse is now fully operational.

The catering operation, which was brought in-house from April 2007, has successfully completed its first full year and maintained profitability at the record 2007 level, with increased total attendances compensating for the reduced numbers of hospitality customers. The improvements in service delivery and quality have been important benefits of this new business and it has also allowed us to be more flexible in our cost base and react to market conditions. Operating margins remain in line with our targets and we are pleased with the opportunities that the catering offering gives us through a wider range of customer promotions. It is, however, more exposed to seasonality than the previous commission-based, outsourced model and we see this effect more keenly in the first half of the year due to the weighting of our business towards the second half of the year.

We continue to develop and improve our customer offering with race-goer packages for both public and corporate customers. A full review of pricing has been undertaken at each racecourse in order to maximise revenue in the current market, ensuring that pricing is appropriate to the target customer and, in the case of hospitality packages and public admission, that a range of price points are available. The in-house catering operation has allowed the business to increase flexibility through the introduction of combined admission and catering offers that provide value to the customer at an efficient cost to Arena. Discounted admission prices for advance bookings and pre-booked internet offerings are proving effective at securing a base-level of attendances regardless of the weather.

Arena maintains a focus on operating costs which is a historic strength of the Group. As well as the control over purchasing and menu planning in the catering business, we have significantly re-engineered the cost base at Doncaster Racecourse, in light of lower than anticipated attendances, and substantially reduced the operating costs at this Racecourse for 2009. Operational gearing is an important factor in the attendance-related aspect of Arena's business and has resulted in reduced 2008 profitability as consumers have trimmed spend per head or, in the case of private hospitality, chosen not to come in the same numbers.

Management remain focused on the most efficient service and product delivery and the actions that we have taken early in this recession have positioned Arena well with regard to difficult trading conditions in 2009 and to enable the Group to capitalise on a recovery in the future.

The revenue generated by Arena's BAGS contract from media rights sold to licensed betting offices increased by 5% to £10.4m (2007: £9.9m), which was less than anticipated due to fewer races during the winter evening race programme in the first part of the year featuring eight horses or more. The Levy – which largely funds prize money and is generated from UK bookmakers' domestic horseracing profits – has been settled at £116.0m for 2007/8 (2006/7: £99.0m), significantly above the expected level, resulting in increased prize-money levels from July 2008. The amount available for the winter evening fixtures increased from £20,000 to £30,000, which has helped to increase the number of runners at these fixtures in the latter part of the year and avoided further impact on BAGS revenue.

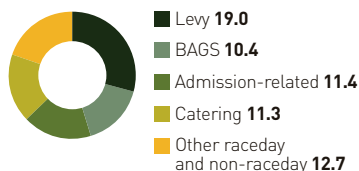
In an indication of the health of the UK racing industry, the average number of horses-in-training in 2008 was consistently above 2007 during the first half of the year, although the respective levels were much closer during the second half. The number of 'Flat' horses in-training during November and December was greater than during the same months in 2007 (+5.8% November; +5.5% December), indicating a wider awareness of the expanded winter programme, which is positive for Arena.

The additional Levy generated in 2007/8 will be distributed over the next three years, with the aim of providing a sustainable funding level in the medium term. This helped the total prize money paid in the year across the industry to increase by 8% to £106.0m (2007: £98.4m). During 2008, the Levy's contribution to Arena's income was broadly flat at £19.0m (2007: £18.9m). This occurred despite the 5% increase in the number of fixtures staged and was due to lower prize-money funding levels across our mix of fixtures. Agreement on the 2009/10 scheme was reached in October 2008 on essentially the same terms as the prior scheme which was a positive development, avoiding a repeat of the referral to the Secretary of State that occurred in 2007. In a sign of the increasingly positive relations between 'racing' and the UK bookmakers, discussions on the Levy scheme for 2010/11 have begun early, with the bookmakers suggesting a three-year arrangement that maintains the Levy at current levels of 10% on UK horseracing gross profits. Together with the industry funding from the Levy, the Group's media rights contract with BAGS, which runs through to December 2011, accounts for approximately one-half of Arena's total income for the year. This is a relatively predictable and resilient revenue stream and a clear positive for the business in the current economic climate.

In other 'racing industry' developments, the UK Government decided in October that the sale of the Tote was not appropriate in light of prevailing market conditions and that it would be retained in public ownership for the 'medium-term', which is viewed as being at least three years. Arena continues to work closely with the Tote to maximise the revenues that are derived

## Operational key performance indicators

### 2008 revenue sources (£m)



### Total attendance



### Private hospitality attendance



from the relationship. Racing Enterprises Limited ('REL'), the new commercial entity for UK racing, has begun a 'branding review' of UK racing, with the results due in mid-2009. Arena looks forward to the results of this major review and to working with REL to improve and develop the public perceptions of UK racing in order to continue the commercial development of the sport. In the legal dispute between Turf TV and BAGS, the judgement delivered in 2008 largely favoured Turf TV. However, an appeal against this judgement is due to be heard in May 2009. In December, Mark Elliott was appointed Vice Chairman of the Racecourse Association ('RCA'). Ian Renton continued as the member-nominated representative of the UK's racecourses on the board of the British Horseracing Authority ('BHA').

Construction of the Lingfield Park hotel and leisure development commenced in May 2008, with financing secured and a franchise agreement with Marriott International signed. The development will be an exciting combination of a 116-bedroom hotel, a new golf clubhouse, complementing the exciting golf course, and a leisure club and spa. The project has a total cost of £29.0m and includes not only the facilities of the hotel and leisure complex, but also certain enhancements to the Racecourse facilities, including general modernisation works and new stables and stable lads' accommodation, totalling approximately £4.0m. Lingfield Park is easily accessible from Gatwick and central London and, as such, will provide an attractive destination for both corporate and leisure business, as well as benefiting from the associated hotel utilisation and catering spend generated by the Racecourse. The hotel construction is progressing to schedule and under a fixed price contract with our main contractor, Kier Ltd. Opening in Spring 2010, we expect the hotel to take up to three years to establish a stabilised earnings stream and, as such, to be well positioned to take advantage of a recovery in the economic cycle. The Group has decided to sell the site of the former leisure club adjacent to the Racecourse on which residential planning permission has been obtained. We hope to conclude a sale of the three-quarter-acre site in 2009.

At Doncaster Racecourse, the proposed development of a 120-bedroom hotel with 34 residential apartments on the upper floors was progressed through to detailed planning and is a project capable of commencing construction at short notice. In the first half of the year, we undertook a review of the timing of the planned development in light of the current economic environment, as well as the cost and availability of suitable debt financing. The project has, accordingly, been delayed













with the Board remaining confident that this is a commercially exciting opportunity that will recommence at such time as market conditions improve. When completed, the hotel will provide a highly complementary asset to the Racecourse operation, particularly as the grandstand facilities provide 3,400m<sup>2</sup> of exhibition space that is establishing itself as a major venue for trade shows and other events.

The Wolverhampton 'racino' scheme has planning consent incorporating a casino and a hotel extension, taking the existing 54-bedroom hotel to 170 bedrooms. The Government awarded Wolverhampton City Council one of the 'small' casino licences in May 2008. We remain hopeful that our site will, in due course, be chosen for the subsequent award of this licence and we will shortly begin the preparation of our tender proposal in partnership with an experienced operator. The tender and award process seem unlikely to be concluded before the end of 2009. Once completed, this imaginative development will create and safeguard further local jobs as well as enhance the Racecourse. The total estimated scheme cost is around £25.0m as we have previously indicated, with construction now unlikely to start until mid-2010, given the likely timescale of the casino licensing process.

The Board considers there is potential for enhancements to the racecourse facilities and associated land development opportunities at Royal Windsor Racecourse. In assessing the opportunity, work is ongoing with our planning advisers to develop a suitable scheme that both improves the Racecourse and its facilities and meets the needs of the local planning authority in this important area of 'Green Belt'. On 10 December 2008, the Group sold the freehold interests in the marina and caravan park sites at Royal Windsor Racecourse to the previous lessee and operator, Tingdene. The sale was for cash consideration of £1.75m and resulted in a profit of £1.67m after accounting for the disposal of fixed assets held at cost. The full year rental from the site had been expected to be £130,000 and was prorated to the date of sale. Under the terms of the sale, Arena will benefit from a share of certain future planning consents, should they arise and, following the disposal, continues to own the freehold to approximately 156 acres at Royal Windsor Racecourse.

The sale of these freehold interests is an example of the Group seeking to realise value from any surplus or underutilised assets within its extensive racecourse portfolio. We remain focused on the surplus land at both Lingfield Park and Folkestone Racecourses, with the latter being the most significant as,

## Operational key performance indicators

| Average attendance per fixture |   | Average contribution per fixture (£) |  | Number of fixtures staged |   |
|--------------------------------|---|--------------------------------------|--|---------------------------|---|
| 2008                           |  1,773 | 2008                                 |  50,000 | 2008                      |  363 |
| 2007                           |  1,652 | 2007                                 |  48,000 | 2007                      |  347 |
| 2006                           |  1,445 | 2006                                 |  43,000 | 2006                      |  353 |
| 2005                           |  1,636 | 2005                                 |  44,000 | 2005                      |  324 |

combined with a redevelopment of the Racecourse, there is potential for residential planning consent on up to 50 acres of surplus land. The local authority ('Shepway') is required to demonstrate capacity to deliver around 6,000 new homes by 2025 and we believe the proposals that we are working on will contribute significantly. Following consultation by Shepway during 2008, its 'Core Strategy – Preferred Options' paper is expected to be issued in May 2009. We will continue to consult with Shepway during this process as we refine our plans.

In January 2008, Arena signed a one-year contract to manage the racing operations of Great Leighs Racecourse in Essex. Great Leighs was the first new racecourse to open in the UK in 80 years. It staged its first meeting in April 2008 and staged a total of 45 meetings in 2008. Unfortunately, the Racecourse entered administration in January 2009 and has not staged racing since 15 January 2009. During 2008, Arena's operating contract delivered a net profit of £0.3m. As at the date of this report, the Racecourse remains in administration, with Arena currently benefiting from staging a number of its transferred fixtures.

At The Races ('ATR'), in which Arena owns a 45.85% stake, has continued to develop and build upon its audience base both domestically and internationally. ATR enjoyed an exceptional 2008, generating an operating profit of £1.4m (2007: £0.3m) from revenue of £15.7m (2007: £14.5m) and gross profit of £10.5m (2007: £9.6m). Operating profit was recorded after payments to racecourses in excess of £2.4m, bringing the total ATR has generated for its racecourse partners to over £10.0m since June 2004. Arena's share of ATR's operating profit was £0.6m (2007: £0.2m) and the share of the company's first post-tax profit was £0.3m (2007: £0.2m loss). Growth in advertising revenue came from the number of TV channel viewers despite pressure on advertising rates. ATR remains the UK and Ireland's most watched, dedicated horseracing channel, with over 1.5 million individual viewers per month from a potential base of 13 million homes. ATR was also winner of the Best Sports Service category at the Broadcast Digital Channel Awards, UK television's pre-eminent, multi-channel industry awards. Attheraces.com remains the UK's largest horseracing website with over 530,000 unique users, making it one of the UK's most visited sports betting websites. Importantly, the site is not just attracting increasing numbers of users but also greater frequency of use and ATR's pioneering Bet & Watch live streaming service is now available to the customers of 10 leading bookmakers.

During the year, ATR secured the media rights to both the UK's new racecourses, Great Leighs and Ffos Las, and now has media rights arrangements with 31 UK racecourses and all Irish racecourses, resulting in it holding the rights to broadcast nearly 60% of all UK and 100% of Irish fixtures. Included within this total is Ascot Racecourse whose rights extend through to 2014. Outside the UK and Ireland, ATR distributes its high-quality racing content into over 20 countries, including Italy, Turkey, France, Holland, Germany, Spain, Singapore, Japan, Hong Kong, the Caribbean, Sri Lanka, USA, UAE, South Africa and Australia. International distribution remains an important revenue line for ATR and one that performed well beyond expectations in 2008, with revenues reaching record levels. The current strength of the business, with diversified and established revenue streams, leaves ATR in an excellent position to contend both with the continuing, widespread downturn in the advertising and sponsorship market and with the general economic conditions.

In these difficult times, Arena has continued to perform ahead of its industry competitors. We have made progress on our development strategy and importantly delivered on our operational objective of providing a high-quality and profitable catering operation. Looking forward, we are focused on continued operational improvement and delivering an excellent customer experience from an efficient cost base. The Group is currently trading in line with the Board's expectations, despite the impact of the bad weather in January and February 2009. Early interest in bookings for our flagship St Leger Festival at Doncaster Racecourse is consistent with 2008. Nevertheless, we expect that hospitality business over the important summer period will again be impacted by the economic conditions. The fundamentals of the Group's quality asset base and cash-generative operations, underpinned by resilient industry funding and media rights income, remain strong. Continued progress on the Group's current real estate development projects and the identification and exploitation of new opportunities will continue through 2009. Arena is a robust company, supported by dedicated and passionate employees, focused on delivering future value to its shareholders.



**Mark Elliott**  
Chief Executive  
18 March 2009



## Financial Review

Arena is a cash-generative operational business, has a solid asset base and continues to invest in order to create value for shareholders.

**Tony Harris** Finance Director

### Results overview

Revenue in the year to 31 December 2008 increased by 12% to £64.8m (2007: £57.9m). Profit before interest and tax increased by 24% to £7.4m (2007: £6.0m), although profit before and after tax reduced by 31% to £4.0m (2007: £5.8m). Earnings per share decreased by 31% to 1.12p (2007: 1.63p).

The £6.9m increase in revenue arose principally as a result of the in-house catering business and the reopened Doncaster Racecourse operating throughout the period (2007: nine months and five months, respectively). In the first three months of 2007, catering was outsourced and, as a consequence, catering revenue over that period represented only commission-related income. Doncaster Racecourse staged 30 fixtures in the period (2007: nine).

Operating profit from the racecourse operation (before the profit on disposal of the freehold interests at Royal Windsor Racecourse and before 2007 impairment losses) decreased by 7% to £7.7m (2007: £8.4m), reflecting the tough economic environment and, in particular, the impact on both private hospitality and catering spend. The total number of hospitality customers reduced by 14% to 53,700 (2007: 62,700). This net drop in our high-value business, which particularly affected Royal Windsor and Lingfield Park Racecourses, had a negative impact on Arena's overall profitability of approximately £0.7m. The operating profit includes a £0.6m (2007: £1.4m) contribution from the business interruption insurance proceeds received in 2007 following the extensive flooding at Southwell Racecourse and reflects the fact that the Racecourse was not fully operational until July 2008. Last year the Group incurred start-up costs of £0.8m (2008: £nil) relating to the catering operation and the reopening of Doncaster Racecourse.

Profit before interest and tax increased by £1.4m to £7.4m (2007: £6.0m), after recognising a £1.7m gain on the sale of the freehold interests in the caravan park and marina at Royal Windsor Racecourse in December 2008. In 2007, profits were stated after recognising a £1.4m surplus of insurance proceeds over the value of assets written off following the flood damage at Southwell Racecourse and after providing against £1.1m of the carrying value of costs relating to plans for the future development of Royal Windsor Racecourse. Profit before interest

and tax for the year, adjusting for these items, increased slightly to £5.8m (2007: £5.7m).

Profit before tax reduced by 31% to £4.0m (2007: £5.8m), largely as a result of a £1.1m year-on-year, non-cash movement in the net finance expense resulting from the IFRS treatment of interest-free loans (2008: £0.4m expense; 2007: £0.7m income) together with the non-cash loss relating to the movement in the valuation of interest rate derivatives during the period (2008: £1.5m; 2007: £0.1m). Excluding these non-cash items, profit before tax increased by 14% to £5.9m (2007: £5.2m). Within this, the actual net interest charge for the period increased by £0.7m to £1.5m (2007: £0.8m) as, following completion of the Doncaster Racecourse development, interest on the associated loan was no longer capitalised.

### Central costs

Central costs were reduced to £2.3m (2007: £2.5m) and include a share-based payment expense in respect of the amortisation of share options and long-term incentive plan ('LTIP') awards of £0.22m (2007: £0.15m).

### At The Races

ATR, in which Arena has a 45.85% share, continued to progress and recorded its first profit after tax. Total revenue for the period increased by 8% to £15.7m (2007: £14.5m). Arena's share of ATR's operating profit and profit after tax in the period was £0.6m (2007: £0.2m) and £0.3m (2007: £0.2m loss), respectively.

### Capital expenditure

During the year the Group invested £15.1m on capital assets. Of this investment, £6.9m was incurred on the Lingfield Park hotel and leisure scheme which commenced on-site in May 2008 and which is scheduled to complete and open in Spring 2010. A further £3.7m was spent on the completion of the redevelopment works at Doncaster Racecourse and £1.8m was spent on the final reinstatement works at Southwell Racecourse following the major flood damage during 2007. The remaining £2.7m spend was predominantly at the racecourse level, including £0.5m on the installation of ticketing barriers and systems at five racecourses. Capital additions include £0.5m (2007: £0.7m) of interest costs related to development projects during the planning and construction phases.

## Key highlights 2008

- Profit before interest, tax and depreciation increased to £10.8m (2007: £9.7m).
- Total bank debt facilities of £61.0m with bank borrowings of £38.1m.
- Capital expenditure of £15.1m, including the commencement of the Lingfield Park hotel and leisure development.
- Profit before tax decreased from £5.8m to £4.0m after a £2.5m year-on-year impact resulting from financing fair value adjustments.

### Treasury report

At 31 December 2008, the Group had total committed interest bearing bank facilities of £61.0m, of which £38.1m was drawn. These facilities include £23.0m of new funding that was secured during the year via a five-year term loan at a margin of 250bps over LIBOR. Of the remaining facilities, £8.5m amortise by £1.5m per annum to 2013 and the earliest maturity of all other debt is the repayment of a £10.0m credit facility in October 2010. The Group has £6.5m of overdraft facilities that are due for renewal in December 2009. All bank borrowings and financial assets of the Group are held in sterling and on floating interest rates.

Hedging of interest rate risk is considered on a regular basis to ensure that it is appropriate for the level of debt within the Group. The Group has an interest rate cap and collar arrangement in respect of £12.0m of debt which is effective from 1 October 2007 to 30 September 2012. The cap and floor rates which apply under the contract are 5.5% and 4.76%, respectively. Effective from 2 October 2008 to 31 December 2012, a further £10.0m of interest rate hedging was arranged through a 75/25 mix of fixed and capped contracts, for which the effective LIBOR rate is a maximum of 5.27%. As debt levels increase, the Group intends to secure additional hedging to limit future interest rate risk.

Bank loans and overdrafts are secured by a fixed and floating charge on the assets and undertakings of the Group companies, and a first legal charge on all the freehold properties owned by the Group. The security is subject to deeds of priority and permitted charges in favour of the Horserace Betting Levy Board ('HBLB') in respect of security for interest-free loans provided to the Group, which had a balance outstanding of £6.6m at 31 December 2008 (2007: £8.3m).

Under IAS 39 'Financial Instruments: Recognition and Measurement', the Group is required to value the interest rate swap contract at its fair value, with the gain or loss being shown in the income statement as an 'other finance gain or loss'. The valuation at 31 December 2008 has resulted in a liability of £1.5m (2007: £nil) being recorded on the balance sheet and a charge of £1.5m (2007: £0.1m) to the income statement. The contract will be revalued at 31 December in each subsequent year and the resulting gain or loss arising from the valuation will be taken to the income statement.

The Group continues to utilise interest-free loans made available by the HBLB in respect of specified capital projects. Under IAS 39, the Group is required to value interest-free loans on a discounted cash flow basis on initial recognition, with the gain being taken to the income statement. In subsequent years, the loan is accreted back up to its book value, with the corresponding charge being taken to the income statement. As a consequence, the Group has made a charge of £0.4m (2007: £0.2m), reflecting the notional interest charge on outstanding HBLB loans received in previous periods. In 2007, the Group recognised a gain of £0.9m (2008: £nil) in the income statement, which reflected the fair value adjustment for interest-free loans received during the year. This accounting for the interest-free loans under IAS 39 has no 'cash' consequences for the Group.

### Taxation

There is no current year tax charge due to the Group's continued use of HBLB capital credits in respect of racecourse capital projects and the availability of brought forward tax losses. At 31 December 2008, corporation tax losses representing trade and non-trade losses of £63.0m (2007: £58.5m) were available for utilisation in future years, subject to agreement with HM Revenue & Customs.

Following reconsideration of the impact on the tax base of capital credits, we have recognised a deferred tax liability on temporary differences of £12.9m (2007: £12.4m). In addition, we have also recognised a deferred tax asset for losses of £12.9m (2007: £12.4m). There is no net impact of these changes on net assets at 31 December 2006, 2007 or 2008 or on profit and loss and earnings per share for the years ended 31 December 2007 or 2008.

### Dividends

The Board has considered the conditions existing in the credit markets, the expected development obligations of the Group and the maturity of a £10.0m credit facility in October 2010 and has decided not to declare a final dividend for 2008 (2007: 0.30p per share). This prudent measure recognises that, in the prevailing conditions, refinancing of maturing facilities cannot be expected as normal and a more conservative approach to cash flow management is required. An interim dividend of 0.25p per share (2007: 0.25p per share) was paid during the year resulting in a total dividend for the year of 0.25p per share (2007: 0.55p per share).

### Debt facility maturity profile\* (£m)

|       |      |
|-------|------|
| 2014+ | 11.1 |
| 2013  | 26.8 |
| 2012  | 2.1  |
| 2011  | 1.5  |
| 2010  | 11.5 |
| 2009  | 1.5  |

\*excluding overdrafts

### Capital expenditure (£m)

|      |      |
|------|------|
| 2008 | 15.1 |
| 2007 | 29.2 |
| 2006 | 17.6 |
| 2005 | 5.2  |

### Net cash flows\* (£m)

|      |     |
|------|-----|
| 2008 | 8.6 |
| 2007 | 8.3 |
| 2006 | 5.7 |
| 2005 | 6.2 |

\*from operating activities

### Principal risks and uncertainties

The Group regularly reviews ongoing and potential risks which may impact upon the planned execution of strategy and operational performance with a consequential impact on value. In so doing, management and the Board ensure that appropriate systems, procedures and controls are in place to mitigate the occurrence and impact of such risks.

#### Development risk

The Group is currently deploying its strategy for the creation of value through maximising the potential utilisation of real estate and land assets. Central to this strategy are a number of planned and active development projects. The major developments are: a new hotel and leisure facility at Lingfield Park, a new hotel extension and casino (subject to securing the licence) at Wolverhampton Racecourse and a new hotel at Doncaster Racecourse.

In order to mitigate the inherent risks in such a large-scale, multi-site development programme, the Group has or will:

- Undertaken detailed feasibility studies in respect of the new developments using highly qualified and experienced consultants to assess the business potential in each location;
- Chosen to work with internationally recognised hotel brands with significant experience and market presence based upon established management contract and franchise models;
- Employed suitably experienced and qualified project managers for each construction project who are dedicated to delivering the development from planning through to completion; and
- Entered into fixed price contracts with suitably experienced and established building contractors.

The Board remains confident that sufficient control mechanisms are in place to ensure the successful delivery of its development projects.

### Commercial and operational risk

The Group's business is exposed to weaknesses in consumer spend, particularly in the private hospitality segment, and to poor weather conditions during the summer months which can severely impact income and, consequently, profit. In the current economic downturn this risk has had a material impact on the Group's trading and management have taken mitigating actions.

We are ensuring our operating cost base is aligned with the reduced level of attendances and the operating synergies arising from bringing our catering operation in-house are being actively exploited. In particular, a specific plan to materially reduce operating costs at Doncaster Racecourse has been implemented in the later part of 2008, which will deliver full year benefits in 2009.

The Group has appointed suitably experienced and qualified senior management to oversee and direct the operation and standards of performance across all of Arena's racecourses. Appropriate systems and structures are in place to ensure proper training and supervision of staff, and management information systems monitor performance on a regular basis against predetermined targets. The Group has made a significant investment in information technology, covering key business areas and in particular: reservations, ticketing, points of sale and customer relationship management. These systems are substantially embedded assets with a consequent improvement in the control environment of the Group.

A significant proportion of the Group's annual income is derived from the statutory Levy on bookmakers' profits from UK horseracing. The risk that a replacement for this scheme may have a potentially detrimental impact on income is mitigated through the high level of involvement of management in the key industry bodies. The recent settlement of the 2009/10 Levy without recourse to the Secretary of State and the intention of all parties to seek a longer-term solution indicate a reduced risk.

**Strategic risk**

The Group manages a number of strategic risks related to the delivery of value through exploiting the development of land assets at the racecourses.

The current credit markets have reduced the availability and increased the cost of additional debt funding which has a potential impact on the Group's ability to source acceptable funding for future development projects. To mitigate this risk the Group has maintained a close relationship with our current lender, as well as building and maintaining relationships with other potential lenders. In addition, management and the Board continue to consider other alternative sources of investment capital, including the sale of non-core assets as illustrated by the sale of the caravan park and marina freehold interests at Royal Windsor Racecourse.

Potential failure to achieve acceptable planning consents for the surplus land holdings, of which the most significant is that at Folkestone Racecourse, are mitigated by appropriate management actions. Detailed planning strategies have been developed in conjunction with a suitably qualified property consultant. Close relationships are maintained with local council executives and planning departments and representations are made through the Local Development Framework process.

**Health and safety risk**

The Group must ensure it adequately satisfies health and safety standards.

The health and safety of Arena employees and customers is a priority of the business. The Group has employed suitably qualified and experienced health and safety managers to ensure that the Group's health and safety policies are communicated and complied with. Each racecourse employs an on-site food safety specialist whose training is overseen by the Group's National Catering Manager. These on-site employees are, in turn, responsible for ensuring all racecourse catering staff receive food hygiene training. From a racing perspective, the Group employs a Health and Safety Manager, who is responsible for communicating controls and procedures across the Group. She is a member of the Racecourse Association's Safety Advisory Group and ensures that industry best practice is implemented across all seven racecourses.



**Tony Harris**  
Finance Director  
18 March 2008



## Corporate Social Responsibility

The Directors recognise the importance of monitoring the Group's performance relating to environmental, employee and social and community issues and Arena has policies and procedures in place to enable them to do so.

Artist's impression: Lingfield Park hotel and leisure development

### Environmental matters

The Group operates a Health, Safety and Environmental Policy which sets out the responsibilities of the Directors, management and employees in relation to all health and safety and environmental matters, as well as the procedures to be followed. The Group's Health and Safety Manager, together with 10 key employees trained in Environmental Management, oversee the implementation of the policy. Each of the 10 employees has been designated responsibility for communicating specific areas of the policy across the Group, such as recycling and energy saving. The policy is continually being updated.

The recycling programme has been a recent focus of the policy and continues to expand. Cardboard balers and glass compactors are now in place at Lingfield Park, Doncaster, Wolverhampton and Royal Windsor Racecourses. The Group recycled approximately 390 tonnes of waste in 2008, over five times the 70 tonnes recycled in 2007. We continue to review our recycling programme and we are currently investigating the potential reuse of stable bedding as a fuel source. In addition, from 1 February 2009, a designated Group Food Hygiene and Safety Manager was employed and will be oversee the recycling of catering waste.

Of key importance to the Group is the environmental impact of the major developments. To minimise the risk of environmental damage, Arena employs environmental consultants and services consultants to carry out assessments in respect of each project and to report to the respective local planning authorities. The Environment Agency ('EA') is also consulted at all stages of the proposals. The Group assesses all of the environmental risks of the projects and measures will be agreed with the contractors to comply with local authority and EA requirements. The independent consultants will be retained during the works to ensure compliance with the agreed measures. The designs of all developments also include energy efficiency measures.

The hotel and leisure development at Lingfield Park Racecourse commenced in the year and is expected to complete in Spring 2010. The key environmental impact mitigation measures of the project include:

- All the sub- and top-soil removed from the site has been reused or stockpiled on the site. Approximately 30,000 tonnes of spoil was removed, of which over half was used to re-form the first two holes on the golf course. The remainder has been stockpiled on-site for future use. This has eliminated the

need for up to 1,000 haulage journeys to and from the site, and has avoided the impact on landfill of this amount of spoil;

- A biomass boiler has been included as part of the heating solution for the hotel, which is targeted to provide in excess of 10% of the overall energy needs of the building;
- The main contractor is a key player within the 'Considerate Constructors' scheme, ensuring that all the works they carry out are done so with due consideration to the environment;
- All waste removed from site is separated prior to disposal. A waste-management policy was put in place prior to the works commencing on-site which both client and contractor support; and
- Numerous ecological and environmental surveys were carried out as part of the planning process, including soil surveys, ecology surveys, etc. This resulted in various measures being implemented, such as the provision of bat boxes within the new stable lads' accommodation building.

The same level of consideration will be given to the designs of the hotel development at Doncaster Racecourse and the hotel and casino development at Wolverhampton Racecourse in order to minimise environmental impact.

### Employee matters

The recruitment and retention of the highest calibre employees is of the utmost importance to Arena. Group policies and procedures, including details on the employee appraisal process, are provided to all employees. Emphasis is placed on the training and development of all staff to maintain high morale and motivation.

During the year, we have employed a Group Training Officer who is responsible for overseeing the training and development of all staff. Regular training is provided for racecourse management teams, and they, in turn, are ensuring the development of their staff. A regular review process is in place to monitor the systems and procedures in place, ensuring this development motivates staff, as evidenced by the low (2.1%) staff turnover rate across the Group.

Our new Group Training Officer has significantly expanded the Government-funded training provided to our employees, particularly at NVQ 2 level. In total, 150 staff are currently being trained in NVQ and a further 50 staff have received in-house training during the year. A training-needs analysis is being conducted for 2009, in order to continue the development of relevant key skills for individuals, in line with business needs.

Arena inherently relies heavily on a casual workforce for both catering and racing which will differ from race meeting to race meeting. When these casual employees are working for Arena, the Group is responsible for their training and development. The Group aims to provide a high level of training to encourage individuals to work for Arena regularly, enabling the Group to develop them further, thus meeting Arena's objective of providing quality service to all customers.

The success of our development programmes is evident in the recognition our Racecourses have received. In 2008, Doncaster Racecourse won the Neil Wyatt Dual Purpose Course Groundstaff of the Year Award. Judged by a panel including BHA inspectors, jockeys, trainers and owners, it is the most prestigious award for groundstaff in British racing. Also in the year, Royal Windsor Racecourse was awarded the Royal Borough of Windsor and Maidenhead Community Award for Hospitality and Leisure, a terrific recognition of the Racecourse team in establishing a superb entertainment and catering destination. In addition, two of our racecourses, Wolverhampton and Southwell, continue to hold the Investors in People accreditation standard.

### Social and community issues

Arena recognises that gambling is closely associated with horseracing and is a popular raceday activity. The Group has taken steps to encourage responsible gambling and to meet the objectives of the Gambling Act 2005, which are:

- Preventing gambling from being a source of crime or disorder, being associated with crime or disorder or being used to support crime;
- Ensuring that gambling is conducted in a fair and open way; and
- Protecting children and other vulnerable persons from being harmed or exploited by gambling.

In this respect, all of Arena's racecourses fully support all on-course bookmakers and betting operators in the policies that they have in place. Arena is supportive of GamCare's work in association with the Association of Gambling on Tracks Limited in producing a standard policy on behalf of on-course bookmakers. Many bookmakers are now implementing this policy and receive social responsibility training for customer service staff.

Arena ensures that information regarding assistance for problem gambling is available at its racecourses, and that all racecourse staff and on-course bookmakers are able to provide this information to racegoers upon request.

Arena recognises that the consumption of alcohol is also associated with a day out at the races and has taken steps to encourage responsible drinking through the implementation of a Group-wide zero-tolerance policy. This policy requires all staff who serve alcohol to receive appropriate training, verify photo identification if age is in doubt and turn away customers who are below the legal drinking age or who appear to have had too much to drink. Catering bar staff, area managers and

supervisors work in conjunction with the racecourse stewards to monitor the crowds for underage drinkers.

In addition to being committed to the health and safety of its employees, Arena maintains the highest health and safety standards for racecourse visitors. In particular, the catering business has ensured food safety is a priority across the Group. Each racecourse employs an on-site food safety specialist who has received dedicated training from the Group's National Catering Manager. These on-site employees are, in turn, responsible for ensuring all racecourse catering staff receive food hygiene training. Standard Operating Practice manuals have been issued to all catering staff, including casual staff, thus ensuring correct standards and procedures are in place for efficient service delivery. From 1 February 2009, a new Group Food Hygiene and Safety Manager will be responsible for ensuring catering best practice across the Group.

The success of this policy is evident in there being no verified food complaints at an Arena racecourse in 2008 or 2007, and with food safety standard awards granted by the local council to Doncaster Racecourse for the second year running.

From a racing perspective, the Group's Health and Safety Manager is a member of the Racecourse Association's Safety Advisory Group and ensures that industry best practice is implemented, and indeed exceeded, across all seven racecourses. She also oversees the Group's all-areas access programme to ensure our venues comply with Disability Discrimination Act legislation. Arena takes pride in the success it has had in making its venues accessible to visitors with mobility, sight and hearing difficulties, particularly at Wolverhampton, Worcester and Southwell, which remain Disability Symbol holders, and at Doncaster, where accessibility was integral to the grandstand's design. All of Arena's racecourses employ qualified safety officers responsible for implementing and progressing health and safety policies.

Our racecourses are also actively engaged with the local communities in which they operate. Of particular note is Wolverhampton Racecourse's involvement with both the British Horseracing Education and Standards Trust's Racing for Schools programme and the Department for Education and Skills' Playing for Success programme. Both programmes use the environment of the Racecourse to provide motivational learning opportunities to local students, with a Playing for Success learning centre established on-site.

The future will see Arena continuing to progress its corporate social responsibility initiatives.

## Board of Directors and Company Secretary



**Raymond Mould**  
Chairman

Raymond, a qualified solicitor, is a highly regarded businessman with a long track record of corporate achievement and close association with the horseracing and property industries. He is currently Chairman of London & Stamford Investments Ltd and was Executive Chairman of Pillar Property Plc until May 2005 when it was acquired by British Land Plc. He is also Chairman of Fleming Family & Partners Russia Real Estate Limited.



**Mark Elliott**  
Chief Executive

Mark was appointed Chief Executive in October 2005. He was formerly Finance Director and then, finally, Chief Executive at Wembley plc, the track-based gaming leisure venue operator. Mark trained as a Chartered Accountant with Ernst & Young. Mark is Vice Chairman of the Racecourse Association, the trade body of the UK racecourse industry.



**Tony Harris**  
Executive Director

Tony was appointed Finance Director of Arena in May 2008. He was formerly Chief Financial Officer of The UNITE Group Plc and, prior to that, Vice President Finance (Europe & Africa, and Nordic regions) at Hilton International, where he was responsible for 230 hotels operating across 35 countries. Tony qualified as a Chartered Accountant with Arthur Andersen and then spent 13 years working in the hotel industry, first with Inter-Continental Hotels Group and then with Hilton International.



**Ian Renton**  
Executive Director

Ian has held the position of Racing Director since he joined Arena in 2001. He has extensive racing experience including Manager and Clerk of the Course at Salisbury, Wincanton and Aintree. A respected figure throughout racing, Ian is a director of the British Horseracing Authority, which took over responsibility for regulation and governance of UK horseracing in 2007, and sits on various industry advisory Groups.



**Andrew Parker Bowles OBE**  
Non-Executive Director

Andrew has extensive experience and interests in the racing industry. He was a director of the British Horseracing Board from 1997 to 2000, a member of the Jockey Club since 1982 and for four years was the Jockey Club Steward responsible for all 59 racecourses. An owner, rider and breeder of racehorses, he was a director of United Racecourses from 1995 to 1999 and a director of RAM Racing Leisure Ltd from 1996 to 1999. Andrew is a non-executive director of two other companies and a trustee or governor of seven charities. Andrew joined Arena in September 1999.



**Andrew Page**  
Non-Executive Director

Andrew is Chief Executive Officer, and formerly Finance Director, of The Restaurant Group plc ('TRG'), a listed company operating around 350 restaurants and pub restaurants, primarily in leisure locations and airports, in the United Kingdom. Prior to joining TRG, Andrew held a number of senior positions in the leisure and hospitality sector including Senior Vice President of InterContinental Hotels Group and Group Finance Director of Hanover International plc. Prior to that, he spent six years with Kleinwort Benson's Corporate Finance Department. Andrew trained as a Chartered Accountant with KPMG.



**Bob Mercer**  
Company Secretary

Bob is a Fellow of the Institute of Chartered Management Accountants with 11 years' experience working within the racing industry. Bob joined Arena in 1999, initially as Group Financial Controller following the acquisition of Wolverhampton and Southwell Racecourses, and has held the roles of Chief Financial Officer and Company Secretary since May 2001. Prior to working within the racing industry, Bob held a variety of senior roles in the textile and distribution industries.

# Directors' Report

The Directors present their Annual Report together with the audited financial statements for the year to 31 December 2008.

## Results

The results of the Group are set out on page 30.

## The Group

Pre-tax profit for the year to 31 December 2008 was £4,016,000 (2007: £5,844,000). Group profit on ordinary activities after tax was £4,016,000 (2007: £5,844,000). The profit attributable to equity shareholders of the parent company was £4,083,000 (2007: £5,935,000).

## Dividend

The Directors do not recommend the payment of a final dividend (2007: 0.30p per share).

An interim dividend of 0.25p per share (2007: 0.25p per share) was paid during the year.

## Principal activity and business review

The principal activities of the Group during the year were the ownership and operation of racecourses; and the worldwide broadcast and exploitation of racecourse media rights via the Group's shareholding in its At The Races joint venture.

A review of the business, including the Group's performance for the year, its future prospects and principal risks and uncertainties, is set out in the Chief Executive's Statement and Review of Operations on pages 6 to 9, the Financial Review on pages 10 to 13 and the Corporate Social Responsibility section on pages 14 to 15.

These sections of the Annual Report are incorporated into this Business Review by reference.

## Directors

The Directors who held office during the year to 31 December 2008 were as follows:

Raymond Mould  
Mark Elliott  
Ian Renton  
Tony Harris (appointed 1 May 2008)  
Andrew Parker Bowles OBE  
Andrew Page (appointed 1 December 2008)  
Martin McGann (resigned 31 December 2008)

In accordance with the Articles of Association, Andrew Parker Bowles will retire by rotation at this year's Annual General Meeting and, being eligible, offers himself for re-election. Tony Harris and Andrew Page, having been appointed during the year, will also retire and, being eligible, offer themselves for re-election.

The Directors are responsible for managing the business of the Company. The Articles of Association ('the Articles') contain certain provisions relating to the powers of the Directors, including the power to appoint Directors until they are reappointed by shareholders at the next Annual General Meeting. The Articles do not give the Directors the power to remove another Director. Any alteration by the Directors to the Company's share capital is governed by the Articles, although the Company's powers to issue and buy-back its shares require shareholder approval.

Amendments to the Articles of Association may be made by special resolution of the shareholders.

Further information on the Board of Directors is provided in the Corporate Governance statement on pages 21 to 24.

## Directors' interests in shares

The following table shows the beneficial interests of the Directors who held office at 31 December 2008 in the ordinary shares of the Company:

|   | Fully paid ordinary shares in the Company |                     |
|---|---|---------------------|
|   | At 31 December 2008                       | At 31 December 2007 |
| Raymond Mould                             | 1,404,000                                 | 1,175,000           |
| Mark Elliott                              | –   | –                   |
| Ian Renton                                | 30,000                                    | 30,000              |
| Tony Harris (appointed 1 May 2008)        | –   | –                   |
| Andrew Parker Bowles OBE                  | 42,000                                    | 42,000              |
| Andrew Page (appointed 1 December 2008)   | –   | –                   |
| Martin McGann (resigned 31 December 2008) | 50,000                                    | 50,000              |

No changes to the above interests in shares have been notified to the Company in the period from 31 December 2008 to 18 March 2009.

The Directors' holdings of options and awards over ordinary shares in the Company are noted in the Remuneration Report on pages 25 to 29.

The mid-market price of Arena Leisure Plc ordinary shares at 31 December 2008 was 24.75p. High and low prices in the year ended 31 December 2008 were 54.00p and 21.25p, respectively.

The Group's insurance programme includes policies to insure the Directors and senior officers of the Company against claims made against them personally as a result of the performance of their duties for the Group.

**Charitable and political donations**

The Group's charitable donations in the year totalled £11,000 (2007: £16,000). No political donations were made in the year (2007: none).

**Creditors' payment policy and practice**

The Group's policy is to fix payment terms when agreeing business transactions, to ensure that suppliers are aware of such terms and normally abide by the agreed terms of payment. The number of days' purchases which were represented by year-end Group trade creditors was 42 (Company 37).

**Employee policies**

The Group is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. All employees and potential employees will be regarded equally and given equal opportunities regardless of their age, gender, race, colour, sexual orientation, religion or belief, ethnic origin, nationality, marital status or disability. Management actively pursue both the employment of disabled persons whenever a suitable vacancy arises and the continued employment and retraining of employees who become disabled whilst employed by the Company. Particular attention is given to the training, career development and promotion of disabled employees with a view to encouraging them to play an active role in the development of the Company.

The quality, commitment and effectiveness of the Group's employees are crucial to its continued success. Employees are rewarded according to their contribution and capability and to encourage them to become interested in the Group's activities. Arena's reward strategy takes into account incentives, benefits, share schemes and non-cash-based awards, as well as base pay. Training and development programmes have been implemented across the Group and are regularly reviewed.

Employee communications are a high priority and staff members are kept informed through regular management meetings at a national, regional and local level, with staff briefings and notices as appropriate. Each year, employees have the opportunity to meet with their line manager to discuss formally their performance and communicate their views; however, more frequent discussions are encouraged.

**Environmental issues**

The Group is committed to minimising its impact on the environment by maintaining a continuous, Group-wide assessment and awareness of its environmental responsibilities. The Group's policy is to meet and, where practical, exceed the requirements of all applicable legislation and standards.

**Social and community issues**

The Group is conscious of its position and responsibilities in the community and, at all practicable opportunities, endeavours to support initiatives taken in the vicinity of its racecourses. Further disclosures in respect of social and community issues are made in the Corporate Social Responsibility Statement on pages 14 to 15.

**Financial instruments**

Disclosures in respect of financial instruments are made in Note 27 to the IFRS financial statements.

**Changes in asset values**

Disclosures in respect of changes in asset values are made in Note 16 to the IFRS financial statements.

**Significant agreements**

There are no significant agreements to which the Company is party that take effect, alter or terminate upon change of control of the Company following a takeover bid. There are no agreements between the Company, its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

**Capital structure**

Disclosures in respect of the Company's capital structure and the rights attached to the Company's shares are made in Note 29 to the IFRS financial statements. There are no restrictions on the transfer of securities in the Company or on voting rights. The Company is not aware of any agreements between shareholders of the Company which may result in such restrictions.

The Company operates a long-term incentive scheme and two share option schemes for employees. Disclosures regarding the exercise of share options and the vesting of awarded shares in respect of these schemes are provided in Note 33 to the IFRS financial statements.

**Substantial shareholders**

The Directors have been made aware of the following other interests, in addition to the interests of the Directors, representing 3.0% or more of the issued ordinary share capital of the Company as at 17 March 2009:

|                          | Ordinary shares<br>of 5p | % of issued<br>share capital |
|--------------------------|--------------------------|------------------------------|
| Rumney Manor Ltd         | 108,896,000              | 29.9                         |
| Reuben Brothers Ltd      | 82,852,563               | 23.0                         |
| Coatbridge Ltd           | 40,767,217               | 11.2                         |
| Lloyds Banking Group Plc | 19,007,857               | 5.2                          |
| Chase Nominees Ltd       | 13,412,897               | 3.7                          |

## Directors' Report continued

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS') and applicable law and have elected to prepare the Company financial statements in accordance with UK Accounting Standards and applicable law.

The Group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Group. In relation to such financial statements, the Companies Act 1985 provides that references relating to financial statements giving a true and fair view are references to their achieving a fair presentation. The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

In preparing each of the Group and Company 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;
- For the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- For the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

Under applicable law and regulations, the Directors are also responsible for the preparation of a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement which comply with the requirements of that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements which may vary from legislation in other jurisdictions.

### Going concern

As set out in Note 2 to the financial statements, the Directors confirm that, after making enquiries, they have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing these financial statements.

### Annual General Meeting

The Notice convening the Annual General Meeting of the Company on 20 May 2009 is available on the Company's website: [www.arenaleisureplc.com](http://www.arenaleisureplc.com).

### Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are 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 auditors are aware of the information.



By order of the Board  
**Robert Mercer FCMA**  
Company Secretary  
18 March 2009

Registered office:  
408 Strand  
London WC2R 0NE

# Corporate Governance

The Group has maintained its commitment to high standards of corporate governance during the year. The principles and provisions of the Combined Code have been considered by the Board. The Board confirms that throughout the year ended 31 December 2008 the Group has complied with the main and supporting principles as set out in the Combined Code, except for Code Provision A.7.2, in that non-executives have not been appointed for specified periods, and Code Provision A.6.1, in that the Board has not undertaken a formal annual evaluation of its performance and that of its Committees and individual Directors. This latter point is discussed further below.

The Board is accountable to the Company's shareholders for good governance and the statement set out below describes how the principles identified in the Combined Code (appended to the Listing Rules) are applied by the Group.

## Directors

The Company is controlled through its Board of Directors. The Board consists of a Non-Executive Chairman, Raymond Mould, Non-Executive Directors: Martin McGann (resigned 31 December 2008), Andrew Page (appointed 1 December 2008) and Andrew Parker Bowles, and Executive Directors: Mark Elliott, Tony Harris (appointed 1 May 2008) and Ian Renton, of which Mark Elliott is the Chief Executive.

Biographies of the Board members appear on pages 16 to 17 of this report. These indicate the high levels and range of business experience which is essential to manage effectively a business of the size and complexity of the Group.

The Board meets at least six times each year and has a schedule of matters reserved to it for decision. The requirement for Board approval on these matters is communicated widely throughout the senior management of the Group. This includes matters such as determining the strategy of the Group, approval of financial reporting and controls, oversight of the Group's internal controls, material capital commitments, commencing or settling major litigation, business acquisitions and disposals, Board membership and appointments, approval of remuneration of Directors and certain senior management, corporate governance matters, approval of Group policies and risk management strategies, amendments to the structure and financing arrangements of the Group and appointments to subsidiary company boards.

The Company Secretary is responsible for ensuring Board procedures are followed, including the formal minuting of any unresolved concerns that Directors may have in connection with the operation of the Company. During the year, there were no such unresolved issues.

The Board has delegated authority to the Committees of the Board on specific matters. Details of the Nomination and Audit Committees are given within this Statement and details of the Remuneration Committee are given in the Remuneration Report on pages 25 to 29.

Full details of Directors' remuneration and a statement of the Company's remuneration policy are set out in the Remuneration Report. Executive Directors abstain from any discussion or voting at full Board meetings on Remuneration Committee recommendations where the recommendations have a direct bearing on their own remuneration package. The details of each Executive Director's individual package are fixed by the Committee in line with the policy adopted by the full Board.

The differing roles of Chairman and Chief Executive are acknowledged and defined in separate statements approved by the Board. The key functions of the Chairman are to conduct Board meetings and meetings of shareholders and to ensure that all Directors are properly briefed in order to take a full and constructive part in Board discussions. The Chief Executive is required to develop and lead business strategies and processes to enable the Group's business to meet the requirements of its shareholders.

Details of the Chairman's other significant commitments are given in his biography on page 16. The Board is satisfied that these do not interfere with the performance of his duties as Chairman of the Company.

All of the Non-Executive Directors are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement. The senior Non-Executive Director from 1 January 2009 is Andrew Page (previously Martin McGann) and any concerns relating to the executive management of the Company, or the performance of the other Non-Executive Directors, can be raised with him. The service agreements of the Non-Executive Directors are available for inspection at the Company's registered office and will be available at the Annual General Meeting.

## Corporate Governance continued

Any Director appointed during the year is required, under the provisions of the Company's Articles of Association, to retire and seek election by shareholders at the next Annual General Meeting. The Articles also require that one-third of the Directors retire by rotation each year and seek re-election at the Annual General Meeting. The Directors required to retire will be those in office longest since their previous re-election and this will usually mean that each Director retires at least every three years, although there is no absolute requirement to this effect. In order to comply with the Combined Code, but avoid the expense of amending the Company's Articles to deal with this single point, the Board has resolved that each Director will retire at least every three years, even if this is not strictly required by application of the provisions of the Articles.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access which every Director has to the Company Secretary. No such advice was sought during the year. The Company has in place appropriate insurance cover in respect of legal actions against its Directors and the level of cover is regularly reviewed.

### Nomination Committee

The members of the Nomination Committee are Raymond Mould (Chairman), Andrew Parker Bowles, Andrew Page (appointed 1 December 2008) and Martin McGann (resigned 31 December 2008). The Committee meets as required, but not less than once a year. Its responsibilities include reviewing the Board structure, size and composition, nominating candidates to the Board to fill Board vacancies when they arise and recommending Directors who are retiring by rotation to be put forward for re-election. The Committee also ensures that all Board appointees undergo training, as appropriate.

### Audit Committee

The Audit Committee operates under written Terms of Reference to assist the Board in the discharge of its duties with regard to the Group's accounts, the review of internal controls and risk management systems and the external audit.

The Audit Committee is scheduled to meet at least three times a year. It is comprised of Martin McGann (Chairman, resigned 31 December 2008), Andrew Page (appointed 1 December 2008) and Andrew Parker Bowles. Andrew Page was appointed Chairman from 1 January 2009. Martin McGann is a Chartered Accountant with an extensive background in property and finance, including serving as Finance Director of Kandahar Group, a private property company, from 2005 to 2008. The recent and relevant financial experience of Andrew Page is summarised in his biography on page 17.

Senior representatives of the Group's external auditors and appropriate members of senior management are normally invited to attend the meetings. The Chairman of the Committee also meets with the external auditors without management present.

The Committee's responsibilities include:

- Monitoring the integrity of the financial statements of the Company and the formal announcements relating to the Company's financial performance, and reviewing the significant financial reporting judgements contained therein;
- Reviewing the Company's internal financial controls and the Company's internal control and risk management systems;
- Considering the appointment, reappointment and removal of external auditors and approving their remuneration and terms of their engagement;
- Agreeing the scope of the statutory audit with the external auditors prior to the commencement of their work and considering their findings prior to the approval of the financial statements; and
- Monitoring and approving the nature of the work and the level of fees paid for non-audit services as a proportion of the total audit fees paid.

The Audit Committee keeps the scope and cost effectiveness of both internal controls and the external audit under review. The independence and objectivity of the external auditors are also considered on a regular basis, with particular regard to the level of non-audit fees. The split between audit and non-audit fees for the year under review appears on page 40.

### Board and Committee meetings

The attendances at Board and Committee meetings by the Directors and senior executives of the Company during 2008 were as follows:

|  | Board Meetings | Remuneration Committee | Audit Committee | Nomination Committee |
|--|----------------|------------------------|-----------------|----------------------|
| Number of meetings                           | 8              | 2                      | 3               | 3                    |
| <b>Executive Directors</b>                   |                |                        |                 |                      |
| Mark Elliott                                 | 8              | 2                      | –               | 3                    |
| Ian Renton                                   | 8              | –                      | –               | –                    |
| Tony Harris<br>(appointed 1 May 2008)        | 6              | –                      | –               | –                    |
| <b>Non-Executive Directors</b>               |                |                        |                 |                      |
| Raymond Mould                                | 6              | 2                      | –               | 3                    |
| Andrew Parker Bowles                         | 5              | 2                      | 3               | 3                    |
| Andrew Page<br>(appointed 1 December 2008)   | 1              | 1                      | 1               | –                    |
| Martin McGann<br>(resigned 31 December 2008) | 6              | 2                      | 3               | 3                    |

### Board, Committee and individual performance

Although a formal annual evaluation is not currently in place, a continuous process of evaluation of the Board, its Committees and the individual Directors exists. The composition of the Board is also regularly considered.

### Internal control

The respective responsibilities of the Directors and the auditors in connection with the accounts are explained on page 20 within the Directors' Report and page 69 in the Independent Auditors' Report. The Directors' statement on going concern appears in the Directors' Report.

The Board of Directors is responsible for the Company's system of internal control and it is the role of management to implement the Board's policies on risk and control. The system of internal control is designed to manage and mitigate, rather than eliminate, the risk of failure to achieve business objectives. In pursuing these objectives, risk management and internal financial, operational and compliance controls can only provide reasonable, and not absolute, assurance against material misstatement or loss. The Board has reviewed the effectiveness of internal controls during the year.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which complies with the guidance 'Internal Control: Guidance for directors on the Combined Code'. This process has been in place throughout the current period and up to the date of approval of the financial statements. The process is regularly reviewed by the Board.

The key elements of the control framework and review processes in place across the Group are as follows:

- Financial reporting: a detailed formal budgeting process for all Group businesses culminates in an annual Group budget which is approved by the Board. Results for the Company and for its main constituent businesses are reported monthly against the budget to the Board;
- Financial and accounting principles: comprehensive financial and accounting controls are required by the Board for effective financial control. Where areas for improvement in the system of internal controls are identified, the Board considers the recommendations made by the Audit Committee and the external auditors;
- Capital investment: the Company has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired; and
- Treasury: the treasury position of the Group is managed centrally and monitored by the Finance Director.

There are policies and procedures in place for the reporting by employees and the resolution of suspected fraudulent activities. It is the policy of the Group to employ staff and management of high integrity, to train them appropriately and to require compliance with all regular laws, regulations and internal policies.

The Group does not have an internal audit function. Following the necessary evaluation, the Board has concluded that, due to the modest size of the Group, a formal internal audit function is not required. Limited internal audit work is, however, carried out by the Group finance department.

Two of the Directors of the Group are on the board of the Group's joint venture, At The Races. At least one of the Group's Directors will attend all significant meetings of the joint venture, where they will use their influence to ensure that the highest standards of internal control are maintained.

## Corporate Governance continued

### Risk management

Following publication of guidance for directors on internal control (The Turnbull Guidance), the Board confirms its commitment to the management of risk within the organisation.

During the period under review, a risk review has been overseen by the Finance Director. The purpose of the risk review is to identify, evaluate and report formally to the Board on significant risk issues.

Information provided by the risk review, internal management reporting, external auditors and industry sources provides the basis on which the Board carries out its assessment of risk; to identify, evaluate and manage any risk deemed significant to the achievement of the Company's strategic objectives.

The risk management process involves the maintenance of a risk register which identifies significant risks and the controls in place to manage these risks. Any control or other weaknesses are notified to the Board and the appropriate action to be taken by management is identified and followed up.

There is a continued emphasis on risks affecting the health and safety of the Group's customers, employees and racing participants, with the Group employing a qualified racing Health and Safety Manager, a qualified National Catering Manager, who is responsible for food safety, and six other full-time qualified employees to oversee these matters on behalf of the Board. Their responsibilities include the communication of controls and best practice across the Group, staff training and building upon existing policies. Any issues are communicated to the Directors.

### Communication

The Company places a great deal of importance on communication with its shareholders. The full report and accounts are made available to all shareholders and, on request, to any other party when it has an interest in the Group's performance. Shareholders also have direct access to the Company and the Company responds to numerous letters and enquiries from shareholders on a wide range of issues. There is regular dialogue with individual institutional shareholders and the views of the shareholders are communicated to the Board after such discussions. Presentations to major shareholders are made at least twice yearly, after the announcement of the interim and preliminary results, details of which, together with the Group's financial reports and other announcements, can be accessed via the Group's website: [www.arenaleisureplc.com](http://www.arenaleisureplc.com).

All shareholders have the opportunity to question the Directors at the Company's Annual General Meeting, at which the Board highlights key business developments.

### The Listing Rules – the model code

Dealings in the Company's securities by Directors and relevant employees follow the terms of the model code.

# Remuneration Report

As well as complying with the provisions of the Combined Code as disclosed in the Corporate Governance Statement, the Company has applied the principles relating to Directors' remuneration as described below.

## Remuneration Committee

The Remuneration Committee consists of Andrew Parker Bowles (appointed as Chairman on 28 April 2008), Raymond Mould (resigned as Chairman on 28 April 2008), Andrew Page (appointed 1 December 2008) and Martin McGann (resigned 31 December 2008). The Committee determines the remuneration of the Executive Directors and of certain other senior executives within the Company. The Committee also determines the Chairman's fee. The Chief Executive may, at the Committee's invitation, attend meetings except when his own remuneration is discussed.

In 2006, the Remuneration Committee appointed independent remuneration consultants, New Bridge Street Consultants LLP ('NBSC'), to advise on all aspects of senior executive remuneration. NBSC continues to act as consultant to the Company and has no other connection with the Company other than in the provision of advice on executive and employee remuneration.

## Remuneration policy

The Company's remuneration policy is to pay individual Directors a salary or fee at market levels for comparable jobs, recognising the size of the Company and the business sector in which it operates.

The following comprised the principal elements of Executive Directors' remuneration:

- Basic salary and benefits;
- Annual bonus;
- Long-term incentives; and
- Pension contributions into a defined contribution pension scheme.

It is Group policy to ensure that there is a strong link between the level of Directors' remuneration and performance of the Group. Consequently, only basic salaries and benefits are fixed. These fixed elements are recognised as being comparable with other companies. The Remuneration Committee recognises that the long-term success of the Group is largely dependent on attracting executives of the highest quality. Therefore, each Director can significantly augment their salary through annual bonuses and long-term incentives. The Group's contributions to a defined contribution pension scheme are based on basic salary levels only.

In addition to the statutory vote to be held on this Remuneration Report, shareholders will be given the opportunity to ask the Chairman of the Remuneration Committee, Andrew Parker Bowles, questions on any aspect of the Group's remuneration policy at the 2009 Annual General Meeting.

The remuneration for Non-Executive Directors consists of salary or fees for their services in connection with the Board and Board Committee meetings. They are not eligible for pension scheme membership. Their fees are determined by the Executive Directors who have regard to the level of salary or fees paid to the non-executives of similar companies and the time commitment required of each Non-Executive Director.

Each element of remuneration payable to Executive Directors is discussed in more detail below.

## Basic salary and benefits

Basic salaries for all Executive Directors are reviewed (but not necessarily increased) annually by the Committee. In determining the level of basic salaries, the Committee will give consideration to the Government's published inflation statistics, salaries for comparable positions in similar sized companies and any significant change in the role performed by the Director. The Committee also makes use of benchmark data provided by external remuneration consultants but is mindful of the potential ratcheting effect that such data can produce.

In addition to basic salaries, each Executive Director is entitled to the following main benefits:

- In addition to normal bank and public holidays:
  - Chief Executive – 29 working days' holiday per annum,
  - Finance Director – 26 working days' holiday per annum and
  - Racing Director – 25 working days' holiday per annum;
- A fully expensed company car or cash equivalent; and
- Private health insurance for themselves, their spouse and children.

## Annual bonus

In addition to a basic salary, the Executive Directors are entitled to an annual performance-related bonus.

The maximum bonus potential of the Chief Executive is 100% of salary, the Finance Director is 60% of salary and the Racing Director is 60% of salary.

Specific performance criteria are set by the Remuneration Committee at the commencement of the year following approval of the Group's budgets and are primarily related to defined strategic and financial objectives of the Group. The bonus payments that relate to the year under review were 18% of salary for the Chief Executive, 10% of salary for the Finance Director and 12% for the Racing Director.

## Long-term incentives

The Committee believes that share ownership and the granting of share awards strengthens the link between executives' personal interests and those of shareholders.

## Remuneration Report continued

### Share options

In October 2006, final grants of share options were made to the Executive Directors under the Arena Leisure Discretionary Share Option Scheme, which expired in June 2007.

### Long-term incentive plan

With the expiration of the share option scheme in June 2007, shareholder approval was obtained for a new long-term incentive plan ('LTIP') at the 2007 Annual General Meeting. The LTIP provides for annual conditional awards of equity-settled shares to be made subject to the achievement of challenging performance conditions. The key features are set out below.

### Maximum award level

The normal maximum annual award is set at 100% of base salary. In exceptional circumstances, such as recruitment or retention, awards may be made up to 200% of base salary. The annual LTIP award can be replaced by an additional performance-related bonus of up to a maximum of 50% of the normal annual bonus award.

### Performance conditions

For the initial awards made in 2007, the performance conditions were structured using absolute adjusted earnings per share ('EPS') growth targets. This approach enabled the conditions to be tailored to the specific circumstances of the Company at the time and its prospects for the next three-year period. The performance conditions that applied to these awards are set out below:

| Absolute adjusted EPS for the financial year ending 31 December 2009 | Vesting percentage of the shares subject to award |
|--|---|
| Less than 2.2p   | 0%  |
| 2.2p   | 25%   |
| 3.0p   | 75%   |
| 3.3p   | 100%  |
| Straight-line vesting occurs between 25% to 75% and 75% to 100%      |   |

For the purposes of the initial awards, as well as for awards made in future years, adjusted EPS is defined as basic EPS adjusted for certain one-off events.

For awards made in 2008 and future years the performance conditions have reverted to adjusted EPS growth in excess of inflation ('RPI') targets over the performance period, as set out below:

| Adjusted EPS growth over the three-year performance period                        | Vesting percentage of the shares subject to award |
|---|---|
| Less than RPI + 12%   | 0%  |
| RPI + 12%   | 25%   |
| RPI + 30%   | 100%  |
| Between RPI + 12% and RPI + 30% Straight-line vesting occurs between 25% and 100% |   |

The Committee's current intention is that awards will normally be made on an annual basis under the LTIP to encourage sustained earnings growth. This policy replaces the ad hoc award policy that the Company previously operated.

### Pension policy

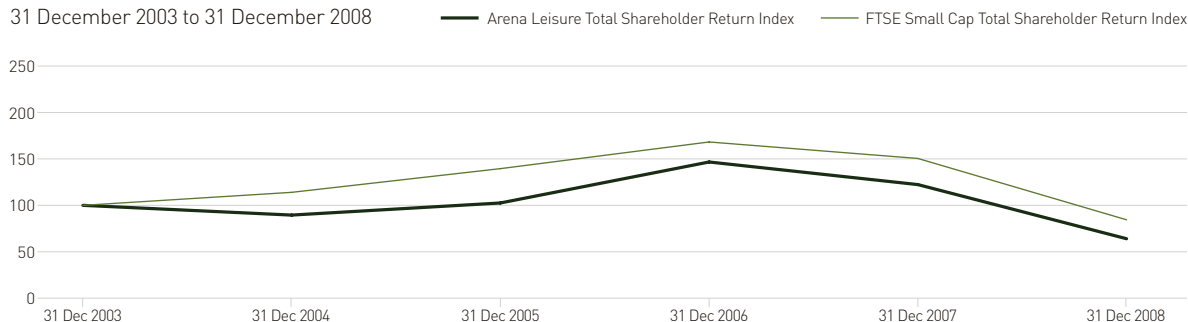
Each of the Executive Directors is entitled to participate in the Group's defined contribution pension scheme to which the Company will contribute 8% of basic salary. The pension scheme provides life insurance cover equal to four times basic salary.

### Performance graph

The following graph compares the total return on the Company's shares with that of the FTSE Small Cap total return index over the last five years. The reasons the Company has chosen this particular index are that it is considered the most likely benchmark by which the majority of shareholders would want to assess their investment in Arena and it is generally less volatile over time than other market indices.

### Total shareholder return

31 December 2003 to 31 December 2008



**Service contracts**

The Remuneration Committee has adopted the following policies concerning contracts and service periods which will be applied to any future appointment to the Board:

- The notice period required by the Company to terminate contracts is 12 months for Executive Directors;
- If the Company terminates without notice the individual is entitled to a payment in lieu of notice of up to 12 months' pay;
- In the event of termination for reasons of misconduct, no payment in lieu of notice is payable;
- Executive Directors will be employed under normal contracts of employment, but are required to give the Company 12 months' notice of their intention to leave;
- Non-Executive Directors are required to give three months' notice under the terms of their service contracts; and
- The notice period required by the Company to terminate contracts is three months for Non-Executive Directors.

Details of each Director's contract are shown below. All contracts are on a rolling basis.

| Director                                  | Date of contract  | Notice period |
|---|-------------------|---------------|
| Raymond Mould                             | 1 November 2005   | 3 months      |
| Mark Elliott                              | 27 September 2005 | 12 months     |
| Ian Renton                                | 9 April 2001      | 12 months     |
| Tony Harris                               | 1 May 2008        | 12 months     |
| Andrew Parker Bowles                      | 8 September 1999  | 3 months      |
| Andrew Page                               | 1 December 2008   | 3 months      |
| Martin McGann (resigned 31 December 2008) | 27 June 2006      | 3 months      |

**Directors' remuneration**

The following disclosures on Directors' remuneration have been audited, as required by Part 3 of Schedule 7A of the Companies Act 1985.

The emoluments of the individual Directors were as follows:

|   | Year ended 31 December 2008 |                |                   |                        |   | Year ended 31 December 2007 |   |
|---|-----------------------------|----------------|-------------------|------------------------|---|-----------------------------|---|
|   | Salary/fee<br>£'000         | Bonus<br>£'000 | Benefits<br>£'000 | Total<br>2008<br>£'000 | Pension<br>contributions<br>2008<br>£'000 | Total<br>2007<br>£'000      | Pension<br>contributions<br>2007<br>£'000 |
| Raymond Mould                             | 85                          | –              | –                 | 85                     | –   | 80                          | –   |
| Mark Elliott                              | 283                         | 50             | 14                | 347                    | 23  | 399                         | 22  |
| Ian Renton                                | 165                         | 20             | 15                | 200                    | 13  | 213                         | 13  |
| Tony Harris (appointed 1 May 2008)        | 117                         | 18             | 7                 | 142                    | 9   | –                           | –   |
| Andrew Parker Bowles                      | 40                          | –              | –                 | 40                     | –   | 35                          | –   |
| Andrew Page (appointed 1 December 2008)   | 4                           | –              | –                 | 4                      | –   | –                           | –   |
| Martin McGann (resigned 31 December 2008) | 45                          | –              | –                 | 45                     | –   | 40                          | –   |
|   | <b>739</b>                  | <b>88</b>      | <b>36</b>         | <b>863</b>             | <b>45</b>                                 | <b>767</b>                  | <b>35</b>                                 |

## Remuneration Report continued

### Directors' holdings of share options

The Directors' holdings of options over ordinary shares are as follows:

|              | At 31 December<br>2008 | At 31 December<br>2007 | Exercise price | Date from which<br>exercisable | Expiry date     |
|--------------|------------------------|------------------------|----------------|--------------------------------|-----------------|
| Mark Elliott | <b>1,000,000</b>       | 1,000,000              | 40.75p         | 3 October 2008                 | 2 October 2015  |
|              | <b>1,392,405</b>       | 1,392,405              | 39.50p         | 31 October 2009                | 30 October 2016 |
| Ian Renton   | <b>250,000</b>         | 250,000                | 105.00p        | 25 May 2004                    | 24 May 2011     |
|              | <b>746,835</b>         | 746,835                | 39.50p         | 31 October 2009                | 30 October 2016 |

All the options above are held under the discretionary Share Option Scheme, with the exception of 73,619 held by Mark Elliott and 28,571 held by Ian Renton which are held under the Share Option Plan.

The share option performance criteria for these options are noted below:

|              | Date of grant   | Options        | Performance criteria  |
|--------------|-----------------|----------------|---|
| Mark Elliott | 31 October 2006 | 1,392,405      | Exercisable from 31 October 2009 on a straight-line basis between 30% and 100% if the Company achieves annualised adjusted EPS growth in excess of RPI over the performance period between 3% and 10%.<br>Exercisable from 3 October 2008 if the market price of shares at the end of any dealing day after the date of grant is 25% or more greater than the option price of 40.75p, i.e. greater than 50.93p. |
|              | 3 October 2005  | 1,000,000      |   |
| Ian Renton   | 31 October 2006 | 746,835        | Exercisable from 31 October 2009 on a straight-line basis between 30% and 100% if the Company achieves annualised adjusted EPS growth in excess of RPI over the performance period between 3% and 10%.  |
|              | 25 May 2001     | 125,000        |   |
|              |                 | 62,500         | Exercisable if the mean closing mid-price of shares is at least 159.5p over a continuous period of three months.  |
|              |                 | 62,500         | Exercisable if the mean closing mid-price of shares is at least 181.5p over a continuous period of three months.  |
|              |                 | <u>250,000</u> |   |

Adjusted EPS in relation to these options is defined as basic EPS adjusted for certain one-off events.

**Directors' holdings of LTIP share awards**

The Directors' holdings of shares subject to award through the LTIP are as follows:

|              | At 31 December<br>2008           | At 31 December<br>2007 | Vesting date                  |
|--------------|----------------------------------|------------------------|-------------------------------|
| Mark Elliott | <b>389,242</b><br><b>500,773</b> | 389,242<br>–           | 11 June 2010<br>10 April 2011 |
| Ian Renton   | <b>226,468</b><br><b>291,359</b> | 226,468<br>–           | 11 June 2010<br>10 April 2011 |
| Tony Harris  | <b>338,983</b>                   | –                      | 8 May 2011                    |

The performance criteria for the shares subject to award are noted below:

|              | Date award made | Shares  | Performance criteria  |
|--------------|-----------------|---------|---|
| Mark Elliott | 11 June 2007    | 389,242 | Vesting on 11 June 2010 if absolute adjusted EPS at 31 December 2009 is 3.3p. Vesting percentage reduces to 75% if EPS is 3.0p and 25% if EPS is 2.2p. Straight-line vesting occurs between 25% to 75% and 75% to 100%. Vesting on 10 April 2011 if adjusted EPS growth over the three years to 31 December 2010 is RPI+30%. Vesting percentage reduces to 25% if EPS growth is RPI+12% and 0% if EPS growth is less than RPI+12%. Straight-line vesting occurs between 25% and 100%. |
|              | 10 April 2008   | 500,773 |   |
| Ian Renton   | 11 June 2007    | 226,468 | Vesting on 11 June 2010 if absolute adjusted EPS at 31 December 2009 is 3.3p. Vesting percentage reduces to 75% if EPS is 3.0p and 25% if EPS is 2.2p. Straight-line vesting occurs between 25% to 75% and 75% to 100%. Vesting on 10 April 2011 if adjusted EPS growth over the three years to 31 December 2010 is RPI+30%. Vesting percentage reduces to 25% if EPS growth is RPI+12% and 0% if EPS growth is less than RPI+12%. Straight-line vesting occurs between 25% and 100%. |
|              | 10 April 2008   | 291,359 |   |
| Tony Harris  | 8 May 2008      | 338,983 | Vesting on 8 May 2011 if adjusted EPS growth over the three years to 31 December 2010 is RPI+30%. Vesting percentage reduces to 25% if EPS growth is RPI+12% and 0% if EPS growth is less than RPI+12%. Straight-line vesting occurs between 25% and 100%.  |

Adjusted EPS in relation to these options is defined as basic EPS adjusted for certain one-off events.



On behalf of the Board

**Andrew Parker Bowles**

Chairman, Remuneration Committee

18 March 2009

## Consolidated Income Statement

for the year ended 31 December 2008

|  | Note | Trading<br>£'000 | Separately<br>disclosed<br>items<br>£'000 | 2008<br>Total<br>£'000 | Trading<br>£'000 | Separately<br>disclosed<br>items<br>£'000 | 2007<br>Total<br>£'000 |
|--|------|------------------|---|------------------------|------------------|---|------------------------|
| <b>Revenue</b>                                   | 5    | <b>64,825</b>    | –   | <b>64,825</b>          | 57,920           | –   | 57,920                 |
| Cost of sales                                    |      | <b>(47,270)</b>  | –   | <b>(47,270)</b>        | (42,024)         | –   | (42,024)               |
| <b>Gross profit</b>                              |      | <b>17,555</b>    | –   | <b>17,555</b>          | 15,896           | –   | 15,896                 |
| Other operating income                           | 7    | <b>760</b>       | <b>1,667</b>                              | <b>2,427</b>           | 1,352            | –   | 1,352                  |
| Administrative costs excluding impairment losses |      | <b>(12,848)</b>  | –   | <b>(12,848)</b>        | (11,351)         | –   | (11,351)               |
| Impairment losses                                | 16   | –                | –   | –                      | –                | (1,050)                                   | (1,050)                |
| <b>Profit from operations</b>                    | 6    | <b>5,467</b>     | <b>1,667</b>                              | <b>7,134</b>           | 5,897            | (1,050)                                   | 4,847                  |
| Non-operating income and expense                 | 8    | –                | –   | –                      | –                | 1,370                                     | 1,370                  |
| Share of post-tax results of joint venture       | 19   | <b>310</b>       | –   | <b>310</b>             | (215)            | –   | (215)                  |
| <b>Profit before interest and taxation</b>       |      | <b>5,777</b>     | <b>1,667</b>                              | <b>7,444</b>           | 5,682            | 320                                       | 6,002                  |
| Finance expense                                  | 12   | <b>(3,064)</b>   | <b>(1,455)</b>                            | <b>(4,519)</b>         | (2,053)          | –   | (2,053)                |
| Finance income                                   | 12   | <b>1,091</b>     | –   | <b>1,091</b>           | 1,895            | –   | 1,895                  |
| Net finance expense                              | 12   | <b>(1,973)</b>   | <b>(1,455)</b>                            | <b>(3,428)</b>         | (158)            | –   | (158)                  |
| <b>Profit before taxation</b>                    |      | <b>3,804</b>     | <b>212</b>                                | <b>4,016</b>           | 5,524            | 320                                       | 5,844                  |
| Income tax expense                               | 13   | –                | –   | –                      | –                | –   | –                      |
| <b>Profit for the year</b>                       |      | <b>3,804</b>     | <b>212</b>                                | <b>4,016</b>           | 5,524            | 320                                       | 5,844                  |
| Attributable to:                                 |      |                  |   |                        |                  |   |                        |
| – Equity shareholders of the parent company      | 14   | <b>3,871</b>     | <b>212</b>                                | <b>4,083</b>           | 5,615            | 320                                       | 5,935                  |
| – Minority interest                              |      | <b>(67)</b>      | –   | <b>(67)</b>            | (91)             | –   | (91)                   |
| <b>Profit for the year</b>                       |      | <b>3,804</b>     | <b>212</b>                                | <b>4,016</b>           | 5,524            | 320                                       | 5,844                  |
|  |      |                  |   | Pence                  |                  |   | Pence                  |
| <b>Earnings per share:</b>                       | 14   |                  |   |                        |                  |   |                        |
| Basic earnings per share                         |      |                  |   | <b>1.12</b>            |                  |   | 1.63                   |
| Diluted earnings per share                       |      |                  |   | <b>1.12</b>            |                  |   | 1.63                   |

The notes on pages 34 to 61 form part of these financial statements.

# Consolidated Statement of Changes in Shareholders' Equity

for the year ended 31 December 2008

|  | Note | 2008<br>£'000 | 2007<br>£'000 |
|--|------|---------------|---------------|
| Profit for the period                        |      | 4,016         | 5,844         |
| Total recognised income and expense          |      | 4,016         | 5,844         |
| Share-based payment expense                  | 33   | 220           | 153           |
| Minority interest equity contribution        | 30   | –             | 2,000         |
| Dividends paid                               | 15   | (2,003)       | (1,858)       |
|  |      | 2,233         | 6,139         |
| Total equity at the beginning of the period  |      | 70,411        | 64,272        |
| <b>Total equity at the end of the period</b> |      | <b>72,644</b> | 70,411        |
| Attributable to:                             |      |               |               |
| – Equity shareholders of the parent company  |      | 70,835        | 68,535        |
| – Minority interest                          | 30   | 1,809         | 1,876         |
|  |      | 72,644        | 70,411        |

The prior year adjustments in respect of deferred tax (see Note 28) have no net effect on retained earnings or other components of equity.

The notes on pages 34 to 61 form part of these financial statements.

# Consolidated Balance Sheet

at 31 December 2008

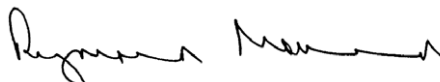
|  | Note | 2008<br>£'000   | 2007<br>£'000   |
|--|------|-----------------|-----------------|
| <b>Non-current assets</b>  |      |                 |                 |
| Property, plant and equipment                                    | 16   | 119,734         | 108,283         |
| Intangible assets  | 17   | 5,596           | 5,596           |
| Investment in joint venture – Share of gross assets              |      | 2,699           | 2,624           |
| – Share of gross liabilities                                     |      | (6,073)         | (6,437)         |
|  | 19   | (3,374)         | (3,813)         |
| Goodwill in respect of joint venture                             | 19   | 1,580           | 1,580           |
| Loans to joint venture   | 19   | 4,965           | 4,979           |
|  |      | 3,171           | 2,746           |
| Investment in associate  | 19   | –               | –               |
| <b>Total non-current assets</b>                                  |      | <b>128,501</b>  | <b>116,625</b>  |
| <b>Current assets</b>  |      |                 |                 |
| Inventories  | 20   | 544             | 415             |
| Trade and other receivables                                      | 21   | 5,415           | 6,191           |
| Assets classified as held for sale                               | 22   | 100             | –               |
| Cash and cash equivalents  | 24   | 179             | 3,735           |
| <b>Total current assets</b>                                      |      | <b>6,238</b>    | <b>10,341</b>   |
| <b>Total assets</b>  |      | <b>134,739</b>  | <b>126,966</b>  |
| <b>Current liabilities</b>                                       |      |                 |                 |
| Bank overdraft   | 24   | (1,003)         | –               |
| Trade and other payables   | 23   | (7,850)         | (6,475)         |
| Loans and borrowings   | 26   | (2,940)         | (2,796)         |
| Accruals and deferred income                                     | 25   | (6,691)         | (6,585)         |
| <b>Total current liabilities</b>                                 |      | <b>(18,484)</b> | <b>(15,856)</b> |
| <b>Non-current liabilities</b>                                   |      |                 |                 |
| Loans and borrowings   | 26   | (40,448)        | (37,145)        |
| Accruals and deferred income                                     | 25   | (3,163)         | (3,554)         |
| <b>Total non-current liabilities</b>                             |      | <b>(43,611)</b> | <b>(40,699)</b> |
| <b>Total liabilities</b>   |      | <b>(62,095)</b> | <b>(56,555)</b> |
| <b>Total net assets</b>  |      | <b>72,644</b>   | <b>70,411</b>   |
| <b>Equity</b>  |      |                 |                 |
| Share capital  | 29   | 18,210          | 18,210          |
| Share premium  | 30   | 223             | 223             |
| Merger reserve   | 30   | 5,417           | 5,417           |
| Retained earnings  | 30   | 46,985          | 44,685          |
| <b>Equity attributable to shareholders of the parent company</b> |      | <b>70,835</b>   | <b>68,535</b>   |
| Minority interest  | 30   | 1,809           | 1,876           |
| <b>Total equity</b>  |      | <b>72,644</b>   | <b>70,411</b>   |

The notes on pages 34 to 61 form part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 18 March 2009 and signed on its behalf by:



**Mark Elliott**  
Chief Executive



**Raymond Mould**  
Chairman

# Consolidated Cash Flow Statement

for the year ended 31 December 2008

|   | Note | 2008<br>£'000  | 2007<br>£'000 |
|---|------|----------------|---------------|
| <b>Cash flows from operating activities</b>   |      |                |               |
| Profit for the year   |      | 4,016          | 5,844         |
| Adjustment for:   |      |                |               |
| Depreciation  | 16   | 3,370          | 2,616         |
| Insurance surplus in respect of Southwell Racecourse flood damaged assets             | 8    | –              | (1,370)       |
| Dilution gain   | 19   | (129)          | –             |
| Impairment provision  | 16   | –              | 1,050         |
| Share-based payment expense   | 33   | 220            | 153           |
| Net finance expense   | 12   | 3,428          | 158           |
| Share of (profit)/loss of joint venture   | 19   | (310)          | 215           |
| Profit on sale of property, plant and equipment                                       |      | (1,615)        | (4)           |
| Grant amortisation  |      | (71)           | (53)          |
| Cash flows from operating activities before changes in working capital and provisions |      | 8,909          | 8,609         |
| Decrease in trade and other receivables   |      | 776            | 263           |
| Increase in inventories   |      | (129)          | (398)         |
| Decrease in trade and other payables  |      | (1,003)        | (125)         |
| Net cash from operating activities  |      | 8,553          | 8,349         |
| <b>Cash flows from investing activities</b>   |      |                |               |
| Purchases of property, plant and equipment  |      | (13,905)       | (27,250)      |
| Proceeds from sale of property, plant and equipment                                   |      | 1,760          | 66            |
| Insurance proceeds in respect of flood damaged assets                                 | 8    | –              | 4,586         |
| Sale of investment in associate   | 19   | –              | 100           |
| Decrease/(increase) in loans to joint venture   | 19   | 14             | (1,003)       |
| Interest received   | 12   | 1,091          | 962           |
| Net cash used in investing activities   |      | (11,040)       | (22,539)      |
| <b>Cash flows from financing activities</b>   |      |                |               |
| Minority interest equity contribution   | 30   | –              | 2,000         |
| Proceeds from bank and other borrowings   |      | 6,243          | 21,687        |
| Capital grants received   |      | –              | 882           |
| Repayment of loans  |      | (3,243)        | (143)         |
| Repayment of finance lease liabilities  |      | 14             | (2)           |
| Interest paid   | 12   | (3,083)        | (1,771)       |
| Dividends paid  | 15   | (2,003)        | (1,858)       |
| Net cash from financing activities  |      | (2,072)        | 20,795        |
| <b>(Decrease)/increase in cash and cash equivalents</b>                               | 24   | <b>(4,559)</b> | 6,605         |
| Net cash and cash equivalents at beginning of year                                    | 24   | 3,735          | (2,870)       |
| <b>Net cash and cash equivalents at end of year</b>                                   | 24   | <b>(824)</b>   | 3,735         |

The notes on pages 34 to 61 form part of these financial statements.

# Notes Forming Part of the Financial Statements

for the year ended 31 December 2008

## 1 Reporting entity

Arena Leisure Plc ('the Company') is a company domiciled in the UK. The address of the Company's registered office is 408 Strand, London WC2R 0NE. The consolidated financial statements of the Company as at and for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as 'the Group') and the Group's interest in associates and jointly controlled entities. The Group is primarily involved in the ownership and operation of racecourses; and the worldwide broadcast and exploitation of racecourse media rights via the Group's shareholding in its At The Races joint venture.

## 2 Basis of preparation

### Statement of compliance

These consolidated financial statements ('financial statements') have been prepared in accordance with International Financial Reporting Standards (IFRS and IFRIC interpretations) issued by the International Accounting Standards Board ('IASB'), as adopted by the EU, and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS.

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 62 to 68.

The financial statements were approved by the Board of Directors on 18 March 2009.

### Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value;
- Financial instruments at fair value through the profit or loss are measured at fair value; and
- Liabilities for equity-settled share-based payment arrangements are measured at fair value.

The methods used to measure fair values are discussed further in Note 4.

### Functional and presentation currency

These financial statements are presented in sterling, which is the Company's functional currency. All financial information presented in sterling has been rounded to the nearest thousand.

### Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenditure. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on management's

best knowledge of the amounts, events or actions at 31 December 2008. Actual results may differ from these estimates.

The key estimates and judgements made by management during the year relate to the carrying value of the racecourse development projects held within assets under construction (Note 16).

Information about other significant areas of estimation and judgements in applying accounting policies is included in the following notes:

- Note 17 – provisions for impairment: assumptions are made each year concerning the projections of future cash flows arising from the racecourses when reviewing the carrying value of goodwill;
- Note 16 – residual values: an assessment is made of the estimated residual values of property, plant and equipment. Residual values are reviewed annually;
- Note 28 – recognition and measurement of deferred tax assets and liabilities: judgements are required in determining the amounts to be recognised, in particular when assessing the extent to which deferred tax assets should be recognised, with consideration given to the timing and level of future taxable income; and
- Note 33 – measurement of share-based payment: assumptions are made each year concerning the projections of future profits of the Group in assessing the likelihood of performance criteria being met.

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Statement and Review of Operations on pages 6 to 9. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 10 to 13. In addition, Note 27 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. Further disclosures relating to liquidity risk are included within Notes 12 and 26.

The Group has sufficient bank facilities to enable it to complete its committed development expenditure and to continue to meet day-to-day working capital requirements through an overdraft facility which is due for renewal on 18 December 2009. The earliest maturity on any of the Group's other debt facilities is October 2010. The Group will open renewal and refinancing negotiations in due course and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms.

## 2 Basis of preparation continued

The Group continues to be a cash-generative operational business with good quality assets. Revenues are generated from a variety of sources including industry funding through the Horserace Betting Levy Board ('HBLB') and income from its five-year (to 31 December 2011) BAGS media rights contract to provide live racing pictures to UK licensed betting offices, both of which have proven to be highly resilient to economic downturn. However, the current economic conditions create uncertainty, particularly over levels of private hospitality and public demand and consequent attendance levels at the Group's racecourses. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance together with mitigating actions that are within management's control, show that the Group is expected to be able to operate within the level and covenant conditions of its current debt facilities.

Despite the current uncertain economic outlook, the Directors believe that the Group is well placed to manage its business risks successfully. After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

## 3 Accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been applied to all the years presented in the financial statements and have been applied consistently by Group entities, unless otherwise stated.

### Revenue

Revenue principally relates to income derived directly from the holding of horserace meetings, including industry-related income from the HBLB and the non-raceday use of the racecourse facilities. The Group also derives income from the operation of a hotel at Wolverhampton Racecourse and two golf courses located at Lingfield Park and Southwell Racecourses.

Income is recognised in profit or loss once a race meeting has been held. In certain circumstances, income is recognised in profit or loss on a straight-line basis over the life of the agreement to which it relates, such as golf club members' subscriptions.

### Media rights

Income received from BAGS and At The Races ('ATR') in respect of media rights over the broadcasts from the Group's racecourses is recognised within revenue.

On 29 March 2004, *attheraces* terminated its media rights agreement with the Racecourse Association ('RCA') and the 49 racecourses which were party to the contract, including the six racecourses owned at that time by Arena Leisure Plc. Following termination of this agreement, the Group negotiated a new media rights contract and a new At The Races channel was launched in June 2004. The new media rights agreement enabled the Group to resolve its rebate liability under the original contract and to receive future rights payments based on a percentage share of the relevant revenues generated by the broadcasts from the Group's racecourses.

At 29 March 2004, the Group held within accruals and deferred income the sum of £3.2m in respect of deferred media rights income received under the original contract. This income is being released to revenue on a straight-line basis over the initial five-year period of the new contract.

Income from the new media rights agreement with ATR and the BAGS agreement is credited to the income statement in the period in which the relevant race meetings are held.

### Horserace Betting Levy Board revenue

The HBLB provides revenue to racecourses to support the holding of race meetings. For taxation purposes, this revenue can be waived by racecourses, with HBLB approval, and transferred to 'capital credits', which is a tax-efficient scheme operated by the HBLB. These capital credits may be claimed by racecourses against expenditure on HBLB approved capital projects and as a result are not assessable to tax. It is the Group's policy that, as they are derived from and are dependent upon trading activities, capital credit receipts are recognised within revenue when the race meeting to which they relate is held. A corresponding receivable is recognised until the cash is received.

### Basis of consolidation

#### Subsidiaries

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. Subsidiaries are consolidated from the date control commences until the date control ceases. The consolidated financial statements present the results of the Company and its subsidiaries ('the Group') as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2008

### 3 Accounting policies continued

#### Associates and joint ventures

Associate undertakings are entities in which the Group holds a long-term minority interest and has the power to influence (but not control) the financial and operating policy decisions of the entity. Joint ventures are entities in which the Group holds a long-term interest and has joint control under a contractual arrangement for strategic financial and operating decisions. Interests in associate and joint venture undertakings are accounted for using the equity method of accounting and are initially recognised at cost. The Group's share of post-acquisition profits and losses is recognised in the consolidated income statement. Any premium paid for an interest in a jointly controlled entity or associate above the fair value of the Group's share of identifiable assets and liabilities is dealt with under the goodwill policy and is disclosed in the balance sheet within the interests in associates and joint ventures.

#### Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method of accounting. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

#### Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Positive goodwill is capitalised as an intangible asset and measured at cost less any accumulated impairment losses.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess (negative goodwill) is recognised immediately in profit or loss.

#### Financial instruments

##### Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables. Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents: This category comprises cash balances and call deposits. Bank overdrafts that are repayable

on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents.

Other: These are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost using the effective interest rate method, less any provision for impairment.

Other financial liabilities include the following items:

- Bank borrowings, which are recognised at the outstanding amount advanced less issue costs which are accreted to the income statement over the life of the borrowing facility. Interest expense on outstanding borrowings is charged to the income statement as incurred; and
- Interest-free loans, which are initially recognised at the present value of the amount advanced. These loans are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability in the balance sheet.

#### Derivative financial instruments

The Group holds derivative financial instruments to hedge its interest rate risk exposures. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for in profit or loss.

#### Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

#### Retirement benefits: defined contribution schemes

Contributions to the Group's defined contribution pension scheme are recognised as an employee benefit expense in profit or loss when they are due.

#### Share-based payments

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

### 3 Accounting policies continued

#### Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a 'finance lease'), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of fair value and present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an 'operating lease'), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

Where the Group enters into leases for land and buildings, the land element and the building elements are split, with generally the land element being treated as an operating lease and the building element as a finance lease. However, if lease payments cannot be allocated reliably between land and buildings, then the entire lease is classified as a finance lease.

As a consequence, the lease in respect of Doncaster Racecourse has been split into operating and finance lease elements and the lease in respect of Worcester Racecourse has been classified as a finance lease. The finance leases have been capitalised as property, plant and equipment with corresponding finance lease liabilities. Future lease payments will be allocated between capital and interest accordingly.

#### Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for differences arising on:

- The initial recognition of goodwill;
- Goodwill for which amortisation is not tax deductible;

- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- Investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income tax levied by the same authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date.

#### Earnings per share

The Group presents basic and diluted earnings per share ('EPS') data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

#### Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when paid by the Company. In the case of final dividends, this is when approved by the shareholders at the Annual General Meeting.

#### Property, plant and equipment

Items of property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised as part of the acquisition or construction cost.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2008

### 3 Accounting policies continued

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within 'other income' in profit or loss.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Freehold land is not depreciated. Depreciation is recognised in profit or loss on all other items of property, plant and equipment to write off the cost, less estimated residual values of items, over their expected useful economic lives. Depreciation is provided on a straight-line basis at the following rates:

|                              |   |
|------------------------------|---|
| Freehold buildings           | 2% per annum  |
| Leasehold land and buildings | Over the length of lease or 50 years, whichever is shorter, to residual value |
| All-weather tracks           | Surface 5% to 10% per annum<br>Base 2.5% to 3.3% per annum                    |
| Plant and machinery          | 2.5% to 33% per annum   |
| Fixtures and fittings        | 5% to 25% per annum   |
| Motor vehicles               | 25% per annum   |

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

#### Impairment

##### Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

##### Non-financial assets

Impairment tests in respect of goodwill are undertaken annually on 31 December. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, in this case being the individual racecourses. Where the carrying value of a racecourse exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly. 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. Impairment losses are recognised in profit or loss. An impairment loss in respect of goodwill is not reversed.

Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying value may not be recoverable. If any such indication exists, then the asset's recoverable amount is estimated with the impairment recognised in profit or loss. 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.

##### Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter the assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

### 3 Accounting policies continued

#### Finance income and expenses

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets and losses on hedging instruments that are recognised in profit or loss. All borrowing costs, with the exception of those described above, are recognised in profit or loss using the effective interest method.

#### Inventories

Inventories are recognised at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle. Net realisable value is the estimated selling price in the ordinary course of business.

#### Government grants

Government grants received on capital expenditure are initially recognised on receipt as deferred income. The deferred income balance is recognised in profit or loss over the period and in proportion to which the depreciation on those assets is charged.

#### New standards and interpretations not applied

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee have issued the following standards and interpretations which are not yet effective for the year ended 31 December 2008 and have not yet been applied in preparing these consolidated financial statements, but which are to be applied to financial statements with periods commencing on or after the following dates:

| International Accounting Standards (IAS/IFRS)                                       | Effective date |
|---|----------------|
| IFRS 8 'Operating Segments'   | 1 January 2009 |
| Revised IAS 23 'Borrowing Costs'  | 1 January 2009 |
| Amendments to IAS 1 'Presentation of Financial Statements – A Revised Presentation' | 1 January 2009 |
| Amendments to IAS 32 'Financial Instruments: Presentation'                          | 1 January 2009 |
| Amendments to IFRS 2 'Share-based Payment – Vesting Conditions and Cancellations'   | 1 January 2009 |
| Amendments to IAS 39 and IFRS 7 'Reclassification of Financial Instruments'         | 1 July 2009    |
| Revised IFRS 3 'Business Combinations'  | 1 July 2009    |
| Amended IAS 27 'Consolidated and Separate Financial Statements'                     | 1 July 2009    |
| Improvements to IFRSs (issued by IASB in May 2008)                                  | 1 January 2009 |
| International Financial Reporting Interpretations Committee (IFRIC)                 | Effective date |
| IFRIC 13 'Customer Loyalty Programmes'  | 1 January 2009 |

Revised IAS 1 is expected to have an impact on the presentation of the consolidated financial statements. It introduces the term 'total comprehensive income', which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement or in an income statement and a separate statement of comprehensive income. The Group intends to adopt the separate statement approach.

The Directors do not anticipate that the adoption of the other standards and interpretations will have a material impact on the Group's financial statements in the period of application and all relevant aspects of Improvements to IFRSs will be applied.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2008

### 4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### Derivatives

The fair value of interest rate hedging agreements is based on bank valuations.

#### Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

#### Share-based payment transactions

The fair value of employee stock options is measured using the Black-Scholes Pricing Analysis. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

### 5 Revenue

|  | 2008<br>£'000 | 2007<br>£'000  |
|--|---------------|----------------|
| Sale of services   | 64,825        | 57,920         |
| The Group only has one segment: racecourse operations. Within this segment, turnover is analysed as follows: |               |                |
|  | 2008<br>£'000 | 2007*<br>£'000 |
| HBLB   | 18,993        | 18,918         |
| BAGS (media rights income in relation to licensed betting offices)   | 10,399        | 9,883          |
| Other racecourse-related revenue   | 35,433        | 29,119         |
|  | 64,825        | 57,920         |

\*The allocation in respect of 2007 has been changed for consistent presentation.

### 6 Profit from operations

|  | 2008<br>£'000 | 2007<br>£'000 |
|--|---------------|---------------|
| This has been arrived at after charging/(crediting):   |               |               |
| Prize money  | 15,556        | 14,653        |
| Staff costs (see Note 9)   | 9,783         | 9,605         |
| Depreciation of property, plant and equipment  | 3,370         | 2,616         |
| Auditors' remuneration:  |               |               |
| – Audit fees applicable to the Company's consolidated accounts   | 8             | 7             |
| – Audit fees applicable to the statutory audit of the accounts of subsidiaries   | 100           | 95            |
| – Interim review   | 16            | 15            |
| – Other services   | 20            | –             |
| Profit on disposal of fixed assets:  |               |               |
| – Profit on disposal of freehold interests in the marina and caravan park at Royal Windsor Racecourse (see Notes 7 and 16) | (1,667)       | –             |
| – Loss/(profit) on disposal of other fixed assets  | 52            | (4)           |
| Amortisation of Government grants  | (71)          | (53)          |
| Impairment losses in respect of Royal Windsor Racecourse (see Note 16)   | –             | 1,050         |
| Business interruption insurance in respect of Southwell Racecourse (see Note 8)  | (631)         | (1,352)       |

## 7 Other operating income

Other operating income consists of £1,667,000 (2007: £nil) relating to the profit on disposal of the freehold interests in the marina and caravan park at Royal Windsor Racecourse (see Note 16), £631,000 (2007: £1,352,000) relating to business interruption insurance in respect of Southwell Racecourse (see Note 8) and £129,000 (2007: £nil) in respect of a dilution gain relating to At The Races (see Note 19).

## 8 Southwell flood insurance claim

The severe weather which occurred in June and July 2007 resulted in the flooding of Southwell Racecourse. The Racecourse partially reopened in December 2007 and was fully operational in July 2008.

As a result, a business interruption insurance claim and a material damage insurance claim were made in 2007 as follows:

|                       | Cash<br>proceeds<br>£'000 | Assets<br>written off<br>£'000 | Other<br>flood-related<br>costs<br>£'000 | Deferral<br>£'000 | 2007<br>Income<br>statement<br>£'000 |
|-----------------------|---------------------------|--------------------------------|--|-------------------|--------------------------------------|
| Flood damaged assets  | 4,586                     | (3,216)                        | –  | –                 | 1,370                                |
| Business interruption | 2,014                     | –                              | (31)                                     | (631)             | 1,352                                |
| Total                 | 6,600                     | (3,216)                        | (31)                                     | (631)             | 2,722                                |

The £631,000 deferral was released to the income statement in the year ended 31 December 2008 (see Note 7).

## 9 Staff numbers and costs

The average number of persons employed by the Group (including Directors and part-time staff but excluding raceday casual staff) during the year, analysed by category, was as follows:

|  | 2008<br>Number | 2007<br>Number |
|--|----------------|----------------|
| Management and administration                                | 168            | 152            |
| Customer services  | 210            | 267            |
|  | <b>378</b>     | 419            |
|  |                |                |
|  | 2008<br>£'000  | 2007<br>£'000  |
| <b>Staff costs (including Directors)</b>                     |                |                |
| Wages and salaries   | 8,483          | 8,459          |
| Contributions to defined contribution pension plans          | 210            | 154            |
| Share-based payment expense (see Note 33)                    | 220            | 153            |
| Employer's national insurance contribution and similar taxes | 870            | 839            |
|  | <b>9,783</b>   | 9,605          |

The Company employs casual staff to assist during racedays. The number of casual staff varies between 50 and 560, depending on the raceday. Casual staff are not included in the staff numbers or costs stated above. The aggregate payroll in respect of casual staff for 2008 was £3,593,000 (2007: £2,235,000).

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2008

### 10 Directors' and key management remuneration

|   | 2008<br>£'000 | 2007<br>£'000 |
|---|---------------|---------------|
| <b>Directors' remuneration</b>                      |               |               |
| Directors' emoluments                               | 863           | 767           |
| Contributions to defined contribution pension plans | 45            | 35            |
| Share-based payment expense (see Note 33)           | 137           | 90            |
|   | <b>1,045</b>  | <b>892</b>    |

There were three Directors (2006: two) in the Company's defined contribution pension scheme during the year.

Further disclosures relating to the remuneration of each individual Director are included in the Remuneration Report of which the information on pages 27 to 29 has been audited. Directors' emoluments include amounts attributed to benefits-in-kind on which the Directors are assessed for tax purposes. This may differ to the cost to the Group of providing those benefits included in Notes 9 and 10.

|  | 2008<br>£'000 | 2007<br>£'000 |
|--|---------------|---------------|
| <b>Key management remuneration (including Directors)</b> |               |               |
| Wages and salaries                                       | 1,461         | 1,545         |
| Contributions to defined contribution pension plans      | 88            | 77            |
| Share-based payment expense (see Note 33)                | 200           | 141           |
|  | <b>1,749</b>  | <b>1,763</b>  |

There are six employees (excluding Directors) defined as being key management for 2008 (2007: eight).

### 11 Segment information

The Group only has one operating segment: racecourse operations. This business segment arises in the UK.

Additional information on this segment is as follows:

|  | Racecourse operations |               | Central operations |               | Total         |               |
|--|-----------------------|---------------|--------------------|---------------|---------------|---------------|
|  | 2008<br>£'000         | 2007<br>£'000 | 2008<br>£'000      | 2007<br>£'000 | 2008<br>£'000 | 2007<br>£'000 |
| <b>Revenue</b>   | <b>64,825</b>         | 57,920        | -                  | -             | <b>64,825</b> | 57,920        |
| <b>Profit from</b>   |                       |               |                    |               |               |               |
| Operations   | 6,988                 | 7,006         | (2,281)            | (2,461)       | 4,707         | 4,545         |
| Other operating income   | 760                   | 1,352         | -                  | -             | 760           | 1,352         |
| Profit from operations excluding profit on disposal of the freehold interests in the marina and caravan park at Royal Windsor Racecourse and impairment losses | 7,748                 | 8,358         | (2,281)            | (2,461)       | 5,467         | 5,897         |
| Profit on disposal of the freehold interests in the marina and caravan park at Royal Windsor Racecourse  | 1,667                 | -             | -                  | -             | 1,667         | -             |
| Impairment losses  | -                     | (1,050)       | -                  | -             | -             | (1,050)       |
| Profit from operations   | 9,415                 | 7,308         | (2,281)            | (2,461)       | 7,134         | 4,847         |
| Share of joint venture result  | -                     | -             | 310                | (215)         | 310           | (215)         |

**12 Finance income and expense**

|   | 2008<br>£'000  | 2007<br>£'000  |
|---|----------------|----------------|
| <b>Finance income</b>   |                |                |
| Bank interest receivable  | 806            | 639            |
| Other interest receivable (Note 34)                                   | 285            | 323            |
| Gain on present value of interest-free loans on initial recognition   | –              | 933            |
|   | <b>1,091</b>   | <b>1,895</b>   |
| <b>Finance expense</b>  |                |                |
| Bank interest payable   | (2,573)        | (1,740)        |
| Finance lease interest  | (58)           | (31)           |
| Amortisation of previous gain on present value of interest-free loans | (433)          | (223)          |
| Derivative liability held for risk management (see Note 27)           | (1,455)        | (59)           |
|   | <b>(4,519)</b> | <b>(2,053)</b> |
| Net finance expense   | <b>(3,428)</b> | <b>(158)</b>   |

The valuation of the Group's interest rate swap contract at 31 December 2008 has resulted in a liability of £1,456,000 (2007: £1,000) being recorded on the balance sheet and a charge of £1,455,000 (2007: £59,000) to the income statement.

A further £452,000 (2007: £726,000) of interest costs relating to development projects in progress have been capitalised in the year (see Note 16).

**13 Income tax expense**

|                                  | 2008<br>£'000 | 2007<br>£'000 |
|----------------------------------|---------------|---------------|
| <b>UK corporation tax</b>        |               |               |
| Current and deferred tax expense | –             | –             |

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to profits for the year are as follows:

|  | 2008<br>£'000 | 2007<br>£'000 |
|--|---------------|---------------|
| <b>Tax reconciliation</b>  |               |               |
| Factors affecting tax for the period:  |               |               |
| – Profit on ordinary activities before taxation  | 4,016         | 5,844         |
| Profit on ordinary activities at standard rate of corporation tax in the UK of 28% (2007: 30%) | 1,124         | 1,753         |
| <b>Effects of</b>  |               |               |
| Expenses not deductible for tax purposes   | 496           | 657           |
| Tax exempt income  | –             | (3,619)       |
| Change in unrecognised temporary differences   | –             | 494           |
| Adjustment for joint ventures and associates   | (123)         | 64            |
| Utilisation of brought forward losses  | (2,065)       | –             |
| Prior year adjustment  | (103)         | –             |
| Current year losses for which no deferred tax asset is recognised                              | 671           | 651           |
| Total tax charge for the year  | –             | –             |

At the year end, corporation tax losses representing trading and non-trading losses of £63,043,000 (2007: £58,538,000) were available for utilisation in future years subject to agreement with HM Revenue & Customs.

With effect from 1 April 2008, the UK Government enacted a change in the corporation tax rate from 30% to 28%.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2008

### 14 Earnings per share

|   | 2008<br>£'000             | 2007<br>£'000             |
|---|---------------------------|---------------------------|
| <b>Earnings</b>   |                           |                           |
| Profit for the year attributable to equity shareholders of the parent company       | 4,083                     | 5,935                     |
| <b>Adjustments</b>  |                           |                           |
| Derivative liability held for risk management                                       | 1,455                     | 59                        |
| Amortisation of previous gain on present value of interest-free loans               | 433                       | 223                       |
| Gain on present value of interest-free loans on initial recognition                 | –                         | (933)                     |
| Adjusted profit for the year used in the calculation of adjusted EPS                | 5,971                     | 5,284                     |
|   | 2008<br>Number<br>million | 2007<br>Number<br>million |
| <b>Weighted average number of shares</b>  |                           |                           |
| Weighted average number of shares used in the calculation of basic and adjusted EPS | 364.2                     | 364.2                     |
| <b>Dilutive potential ordinary share</b>  |                           |                           |
| Employee share options  | –                         | 0.3                       |
| Weighted average number of shares used in the calculation of diluted EPS            | 364.2                     | 364.5                     |

Certain employee options have not been included in the calculation of diluted EPS because their exercise is contingent on the satisfaction of specific criteria that had not been met at the end of the year. In addition, certain employee options have also been excluded from the calculation of diluted EPS as their exercise price is greater than the weighted average share price during the year (i.e. they are out-of-the-money) and therefore would not be dilutive. The total number of share options excluded in 2008 was 5.55 million (2007: 5.52 million).

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

### 15 Dividends

|  | 2008<br>£'000 | 2007<br>£'000 |
|--|---------------|---------------|
| Final dividend of 0.30p (2007: 0.26p) per ordinary share proposed and paid during the year relating to the previous year's results | 1,092         | 947           |
| Interim dividend of 0.25p (2007: 0.25p) per ordinary share paid during the year relating to the current year's results             | 911           | 911           |
| Dividends paid in the year   | 2,003         | 1,858         |

The Directors do not propose to pay a final dividend for 2008 (2007: 0.30p per share totalling £1,092,000).

**16 Property, plant and equipment**

|   | Assets under construction<br>£'000 | Long leasehold land and buildings<br>£'000 | Freehold land, buildings and all-weather tracks<br>£'000 | Plant and machinery<br>£'000 | Fixtures, fittings and vehicles<br>£'000 | Total<br>£'000  |
|---|------------------------------------|--|--|------------------------------|--|-----------------|
| <b>Cost</b>                               |                                    |  |  |                              |  |                 |
| At 1 January 2007                         | 16,421                             | 2,558                                      | 64,739   | 9,775                        | 6,984                                    | 100,477         |
| Additions                                 | 1,895                              | 19,461                                     | 2,669  | 3,373                        | 1,775                                    | 29,173          |
| Reclassifications                         | (13,641)                           | 13,706                                     | (71)   | 11                           | (5)                                      | -               |
| Disposals                                 | -                                  | -  | (3,848)  | (2,752)                      | (272)                                    | (6,872)         |
| At 31 December 2007                       | 4,675                              | 35,725                                     | 63,489   | 10,407                       | 8,482                                    | 122,778         |
| Additions                                 | 7,694                              | 3,235                                      | 1,593  | 1,764                        | 780                                      | 15,066          |
| Reclassification                          | 917                                | (8,293)                                    | -  | 7,140                        | 236                                      | -               |
| Transfer to assets held for sale          | -                                  | -  | (100)  | -                            | -  | (100)           |
| Disposals                                 | -                                  | (31)                                       | (162)  | (160)                        | (147)                                    | (500)           |
| <b>At 31 December 2008</b>                | <b>13,286</b>                      | <b>30,636</b>                              | <b>64,820</b>  | <b>19,151</b>                | <b>9,351</b>                             | <b>137,244</b>  |
| <b>Depreciation and impairment losses</b> |                                    |  |  |                              |  |                 |
| At 1 January 2007                         | -                                  | (220)                                      | (5,117)  | (4,995)                      | (4,091)                                  | (14,423)        |
| Charged in the year                       | -                                  | (196)                                      | (825)  | (862)                        | (733)                                    | (2,616)         |
| Impairment provision                      | (1,050)                            | -  | -  | -                            | -  | (1,050)         |
| Reclassification                          | -                                  | -  | -  | (2)                          | 2  | -               |
| Disposals                                 | -                                  | -  | 741  | 2,604                        | 249                                      | 3,594           |
| At 31 December 2007                       | (1,050)                            | (416)                                      | (5,201)  | (3,255)                      | (4,573)                                  | (14,495)        |
| Charged in the year                       | -                                  | (183)                                      | (828)  | (1,449)                      | (910)                                    | (3,370)         |
| Reclassification                          | -                                  | 73   | -  | (59)                         | (14)                                     | -               |
| Disposals                                 | -                                  | 23   | 51   | 155                          | 126                                      | 355             |
| <b>At 31 December 2008</b>                | <b>(1,050)</b>                     | <b>(503)</b>                               | <b>(5,978)</b>   | <b>(4,608)</b>               | <b>(5,371)</b>                           | <b>(17,510)</b> |
| <b>Net book value</b>                     |                                    |  |  |                              |  |                 |
| At 31 December 2006                       | 16,421                             | 2,338                                      | 59,622   | 4,780                        | 2,893                                    | 86,054          |
| At 31 December 2007                       | 3,625                              | 35,309                                     | 58,288   | 7,152                        | 3,909                                    | 108,283         |
| <b>At 31 December 2008</b>                | <b>12,236</b>                      | <b>30,133</b>                              | <b>58,842</b>  | <b>14,543</b>                | <b>3,980</b>                             | <b>119,734</b>  |

Bank borrowings are secured on the Group's freehold land and buildings (see Note 26).

Assets under construction consist of expenditure in respect of proposed developments at Wolverhampton, Royal Windsor, Lingfield Park and Doncaster Racecourses. These costs will be depreciated once the developments are complete and available for use. The expenditure includes a variety of professional fees incurred in the design and planning process for the individual developments. This includes fees for building architects, engineers, surveyors, cost consultants, planning consultants, legal fees and specialist reports.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2008

### 16 Property, plant and equipment continued

Additions include £452,000 (2007: £726,000) relating to interest capitalised in relation to the development projects in progress at Doncaster, Lingfield Park, Wolverhampton and Royal Windsor. Interest was capitalised at base rate plus 1%, LIBOR plus 1% or LIBOR plus 2.5%, as applicable. There is no resulting impact on the tax charge for the year (2007: none).

Disposals in 2008 include property, plant and equipment with a net book value of £73,000 demolished as part of the Lingfield Park hotel development and £60,000 relating to the sale in December of the freehold interests in the marina and caravan park at Royal Windsor Racecourse. The profit on disposal of the freehold interests in the marina and caravan park was £1,667,000. Disposals in 2007 include £3,216,000 of property, plant and equipment written off in respect of the flood damage at Southwell Racecourse (see Note 8).

The transfer of assets to held for sale relates to land and buildings associated with the Lingfield Park leisure club amounting to £100,000 (see Note 22).

In 2008, the Directors conducted a review of the classification of certain mechanical and electrical installations which formed part of the Doncaster Racecourse grandstand development. As a result of this review, the assets were reclassified from buildings to plant and machinery, with a subsequent decrease in the useful lives and residual values applied. The effect of these changes on the depreciation expense from 2008 onwards is to increase the expense by £1,000 per annum.

In 2007, the Board reviewed the plans for the proposed development of Royal Windsor Racecourse. Recognising that the architectural design of the most likely development would differ from that included within the carrying value at 31 December 2007, the Board wrote down the carrying value of the expenditure on this development, included within assets under construction, by £1,050,000 to £659,000, representing the fair value of the recoverable costs less cost to sell. No further impairment is required in 2008.

Property, plant and equipment includes non-depreciable assets of £19,034,000 (2007: £36,883,000).

The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases:

|                                   | 2008<br>£'000 | 2007<br>£'000 |
|-----------------------------------|---------------|---------------|
| Long leasehold land and buildings | <b>30,133</b> | 35,309        |

At 31 December 2008, the gross original cost of all assets with a nil net book value still in use was £2,997,000 (2007: £1,519,000).

### 17 Intangible assets

|   | Racecourse<br>operations<br>£'000 |
|---|-----------------------------------|
| <b>Goodwill</b>   |                                   |
| Relating to the Royal Windsor Racecourse business combination | 2,870                             |
| Relating to the Wolverhampton Racecourse business combination | 1,157                             |
| Relating to the Southwell Racecourse business combination     | 873                               |
| Relating to the Doncaster Racecourse business combination     | 696                               |
| At 31 December 2006, 31 December 2007 and 31 December 2008    | <b>5,596</b>                      |

A review of the carrying value of goodwill arising from the acquisition of the Group's racecourses was undertaken at 31 December 2008. The Board has conducted its review by comparing the carrying value of each racecourse with its recoverable amount. The recoverable amount of each racecourse was based on value in use.

## 17 Intangible assets continued

Value in use was determined by discounting the expected future pre-tax cash flows generated from the continuing use of each racecourse using the following key assumptions:

- Cash flows were projected based on management's approved budgets and forecasts for a five-year period;
- A terminal value was based on an extrapolation of the estimate of the future cash flows beyond the five-year period into perpetuity and a pre-tax discount rate. No growth was assumed in the terminal value (2007: none);
- For the purpose of this impairment review only, the estimated pre-tax cash flows assume no changes to the number of race meetings, exclude any potential enhancement of earnings as a result of any strategic developments at the tracks and assume growth in earnings of 18.0% per annum in the case of Doncaster Racecourse and 5.0% per annum in the case of the other racecourses (2007: no growth rate applied to all racecourses); and
- A pre-tax discount rate of 10.0% (2007: 7.1%) was applied in determining the terminal value and the recoverable amounts of the racecourses. The discount rate was based on an adjusted estimated weighted average cost of capital, calculated using the Capital Asset Pricing Model.

The resultant net present values were compared to the carrying values of each racecourse and were found to significantly exceed the asset value of each racecourse plus the goodwill value. As a result of this review, the Board does not consider that any impairment provision is necessary.

The Directors have considered the sensitivity of the impairment reviews to the key assumptions (discount rate and growth rate). Doncaster Racecourse is in its start-up phase and therefore a higher growth rate is assumed. Should the growth rate fall below forecast, the carrying value of Doncaster Racecourse would be impacted. Given the headroom in the projections on the other racecourses, the Directors have concluded that there would be no significant change to the carrying values of these racecourses.

## 18 Subsidiaries

The principal subsidiaries of Arena Leisure Plc, in which the Company owns 100% of the ordinary share capital, with the exception of Worcester Racecourse Ltd (81%) and Doncaster Racecourse Management Company Ltd (81%), are as follows:

| Name                                      | Country of incorporation | Principal activity             |
|---|--------------------------|--------------------------------|
| Windsor Racing Ltd                        | Great Britain            | Racecourse                     |
| Lingfield Park Ltd                        | Great Britain            | Racecourse                     |
| Wolverhampton Racecourse Ltd              | Great Britain            | Racecourse/Hotel               |
| Southwell Racecourse Ltd                  | Great Britain            | Racecourse                     |
| Folkestone Race Course Ltd                | Great Britain            | Racecourse                     |
| Worcester Racecourse Ltd**                | Great Britain            | Racecourse                     |
| Windsor Concessions Ltd                   | Great Britain            | Racecourse concessions         |
| Doncaster Racecourse Management Co Ltd*** | Great Britain            | Racecourse                     |
| Windsor Racecourse Co Ltd                 | Great Britain            | Holding company                |
| Arena Leisure Racing Ltd*                 | Great Britain            | Racecourse operations          |
| Arena Leisure Catering Ltd*               | Great Britain            | Racecourse catering operations |

\*Denotes direct holdings.

\*\*Worcester minority interest has not been recognised on the grounds of net liabilities and that the minority investee has no obligation to fund.

\*\*\*Doncaster minority interest has been recognised on the grounds that the minority interest has an obligation to fund up to a specified amount.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2008

### 19 Joint ventures and associates

Joint venture and associate companies in which the Company owns an equity share are as follows:

|                         | Equity share | Classification | Country of registration | Principal activity |
|-------------------------|--------------|----------------|-------------------------|--------------------|
| Attheraces Holdings Ltd | 45.85%       | Joint venture  | Great Britain           | Racing broadcaster |

On 24 July 2008, At The Races issued new shares to a number of racecourse partners in accordance with long-standing commitments. As a result, from that date, the Company's holding in the ordinary shares of At The Races reduced from 47.5% to 45.85%.

The movement in the Group's investment in associate and joint venture operations was as follows:

|                                      | Associate     |               | Joint venture |               |
|--------------------------------------|---------------|---------------|---------------|---------------|
|                                      | 2008<br>£'000 | 2007<br>£'000 | 2008<br>£'000 | 2007<br>£'000 |
| <b>Cost</b>                          |               |               |               |               |
| At 1 January                         | -             | 722           | 1,580         | 1,580         |
| Disposals                            | -             | (722)         | -             | -             |
| At 31 December                       | -             | -             | 1,580         | 1,580         |
| <b>Provisions</b>                    |               |               |               |               |
| At 1 January                         | -             | (215)         | -             | -             |
| Disposals                            | -             | 215           | -             | -             |
| At 31 December                       | -             | -             | -             | -             |
| <b>Share of profit/(loss)</b>        |               |               |               |               |
| At 1 January                         | -             | (407)         | (3,813)       | (3,598)       |
| Profit/(loss) for the year           | -             | -             | 310           | (215)         |
| Dilution gain                        | -             | -             | 129           | -             |
| Disposals                            | -             | 407           | -             | -             |
| At 31 December                       | -             | -             | (3,374)       | (3,813)       |
| <b>Loans</b>                         |               |               |               |               |
| At 1 January                         | -             | -             | 4,979         | 3,976         |
| Additions                            | -             | -             | -             | 1,003         |
| Repayments                           | -             | -             | (14)          | -             |
| At 31 December                       | -             | -             | 4,965         | 4,979         |
| <b>Net book value at 31 December</b> | -             | -             | 3,171         | 2,746         |

Arena Leisure Plc and BSKyB, as part of its shareholders' agreement, have a commitment to fund At The Races by way of loans up to an amount not exceeding £10,000,000 pro rata to shareholding. Arena Leisure is therefore committed to fund up to £5,000,000, of which £4,965,000 has been provided by way of loans at 31 December 2008 (2007: £4,979,000). These loans are considered, in substance, to form part of the Company's net investment in At The Races. Settlement of these loans is neither planned nor expected to occur in the foreseeable future.

In March 2007, the Company sold its 30% share of Trackplay LLC for £100,000. There was no gain or loss arising.

**19 Joint ventures and associates** continued

The summary financial information for the At The Races joint venture, not adjusted for the 45.85% ownership held by the Group, is as follows:

|                         | 2008<br>£'000 | 2007<br>£'000 |
|-------------------------|---------------|---------------|
| Non-current assets      | 253           | 144           |
| Current assets          | 5,634         | 5,380         |
| Current liabilities     | (3,932)       | (4,238)       |
| Non-current liabilities | (9,313)       | (9,313)       |
| Net liabilities         | (7,358)       | (8,027)       |
| Income                  | 15,654        | 14,469        |
| Expenses                | (14,986)      | (14,921)      |
| Profit/(loss) after tax | 668           | (452)         |

A review of the carrying value of the Group's investment in At The Races was undertaken at 31 December 2008. The Board has conducted its review by comparing the carrying value of the investment with its recoverable amount, which is based on value in use. Value in use was determined by discounting the Group's share of the expected future pre-tax cash flows generated from At The Races using the following key assumptions:

- Cash flows were projected based on the 2009 plan adopted by the board of At The Races;
- A terminal value was based on an extrapolation of the estimate of the future cash flows beyond the five-year period into perpetuity and a pre-tax discount rate. No growth was assumed in the terminal value (2007: none);
- For the purpose of this impairment review only, the estimated pre-tax cash flows assume growth in earnings above the 2009 expected results of 3.0% per annum (2007: 3.0%); and
- A pre-tax discount rate of 10.0% (2007: 7.1%) was applied in determining the terminal value and the recoverable amounts of the investment. The discount rate was based on an adjusted estimated weighted average cost of capital, calculated using the Capital Asset Pricing Model.

The resultant net present value was compared to the carrying value of the investment and was found to significantly exceed the investment value. As a result of this review, the Board does not consider that any impairment provision is necessary.

The Directors have considered the sensitivity of the impairment review to the key assumptions (discount rate and growth rate) and have concluded, given the headroom in the projections, that there would be no significant change to the carrying value of the investment.

**20 Inventories**

|             | 2008<br>£'000 | 2007<br>£'000 |
|-------------|---------------|---------------|
| Consumables | 544           | 415           |

In 2008, consumables recognised as cost of sales amounted to £3,654,000 (2007: £2,869,000).

**21 Trade and other receivables**

|                                | 2008<br>£'000 | 2007<br>£'000 |
|--------------------------------|---------------|---------------|
| Trade receivables              | 3,284         | 3,256         |
| Other receivables              | 652           | 1,563         |
| Prepayments and accrued income | 1,479         | 1,372         |
|                                | 5,415         | 6,191         |

All amounts shown above are due within one year.

An analysis of the interest rate receivable on financial assets and information about fair values, exposure to credit risk and impairment losses related to trade receivables are given in Note 27.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2008

### 22 Non-current assets held for sale

|                               | 2008<br>£'000 | 2007<br>£'000 |
|-------------------------------|---------------|---------------|
| Property, plant and equipment | 100           | –             |

The land and buildings associated with the Lingfield Park leisure club are presented as non-current assets held for sale following the commitment of the Directors to sell these assets, with planning permission for residential development, in order to part-fund the Lingfield Park hotel development. Efforts to sell the assets have commenced, with an active plan to locate a buyer initiated in the year.

### 23 Trade and other payables

|                                 | 2008<br>£'000  | 2007<br>£'000  |
|---------------------------------|----------------|----------------|
| Trade payables                  | (5,139)        | (5,168)        |
| Sales and social security taxes | (773)          | (508)          |
| Derivatives                     | (1,456)        | –              |
| Other payables                  | (482)          | (799)          |
|                                 | <b>(7,850)</b> | <b>(6,475)</b> |

Derivatives represent the fair value of interest rate hedging agreements used to manage interest rate risk. Information on exposure to interest rate risk is disclosed in Note 27.

### 24 Cash and cash equivalents

|  | 2008<br>£'000  | 2007<br>£'000  |
|--|----------------|----------------|
| Cash and cash equivalents                        | 179            | 3,735          |
| Overdrafts (see Notes 26 and 27)                 | (1,003)        | –              |
| Net cash and cash equivalents                    | <b>(824)</b>   | <b>3,735</b>   |
| (Decrease)/increase in cash and cash equivalents | <b>(4,559)</b> | <b>6,605</b>   |
| Cash and cash equivalents at beginning of year   | <b>3,735</b>   | <b>(2,870)</b> |
| Cash and cash equivalents at end of year         | <b>(824)</b>   | <b>3,735</b>   |

The Group's exposure to interest rate risk is disclosed in Note 27.

### 25 Accruals and deferred income

|                                | 2008<br>£'000  | 2007<br>£'000  |
|--------------------------------|----------------|----------------|
| <b>Current liabilities</b>     |                |                |
| Accruals                       | (2,572)        | (2,302)        |
| Deferred income                | (4,119)        | (4,283)        |
|                                | <b>(6,691)</b> | <b>(6,585)</b> |
| <b>Non-current liabilities</b> |                |                |
| Deferred income                | <b>(3,163)</b> | <b>(3,554)</b> |

Deferred income includes amounts relating to deferred Government grants to Doncaster and Wolverhampton Racecourses. The amounts originally granted were £882,000 to Doncaster Racecourse and £2,298,000 to Wolverhampton Racecourse. The grants are being amortised over 50 years.

## 26 Loans and borrowings

The following provides information on the contractual terms of the Group's interest-bearing loans and other borrowings, which are measured at amortised cost. For more information on the Group's exposure to interest rate and liquidity risk, see Note 27.

|                                | 2008<br>£'000   | 2007<br>£'000   |
|--------------------------------|-----------------|-----------------|
| <b>Current liabilities</b>     |                 |                 |
| Bank loans                     | (1,500)         | (1,500)         |
| Finance lease liabilities      | 19              | 14              |
| Other loans                    | (1,459)         | (1,310)         |
|                                | <b>(2,940)</b>  | <b>(2,796)</b>  |
| <b>Non-current liabilities</b> |                 |                 |
| Bank loans                     | (35,600)        | (30,857)        |
| Finance lease liabilities      | (665)           | (646)           |
| Other loans                    | (4,183)         | (5,642)         |
|                                | <b>(40,448)</b> | <b>(37,145)</b> |

Other loans represent interest-free loans from the HBLB and, as required under IAS 39, are shown at present value with a net loss of £433,000 (2007: net gain of £710,000) taken to the income statement (see Note 12). The original value of other loans (current and non-current) total £6,557,000 (2007: £8,300,000).

### Terms and repayment schedule

Terms and conditions of outstanding loans were as follows:

|  | Nominal<br>interest rate | Year of<br>maturity | At 31 December 2008    |                             | At 31 December 2007    |                             |
|--|--------------------------|---------------------|------------------------|-----------------------------|------------------------|-----------------------------|
|  |                          |                     | Face<br>value<br>£'000 | Carrying<br>amount<br>£'000 | Face<br>value<br>£'000 | Carrying<br>amount<br>£'000 |
| Secured bank term loan                           | LIBOR + 2.5%             | 2013                | 5,600                  | 5,600                       | –                      | –                           |
| Secured bank term loan                           | LIBOR + 1%*              | 2013                | 8,500                  | 8,500                       | 10,000                 | 10,000                      |
| Secured bank revolving credit loan               | LIBOR + 1%*              | 2010                | 10,000                 | 10,000                      | 10,000                 | 10,000                      |
| Secured bank term loan                           | LIBOR + 1%               | 2018                | 13,000                 | 13,000                      | 12,357                 | 12,357                      |
| Bank overdraft                                   | LIBOR + 1%*              | 2009                | –                      | –                           | –                      | –                           |
| Bank overdraft (Note 24)                         | Base + 1%                | 2009                | 1,003                  | 1,003                       | –                      | –                           |
| Finance lease liabilities – Doncaster Racecourse | 12.74%                   | 2106                | 349                    | 349                         | 333                    | 333                         |
| Finance lease liabilities – Worcester Racecourse | 5.75%                    | 2050                | 297                    | 297                         | 299                    | 299                         |
| <b>Total interest-bearing liabilities</b>        |                          |                     | <b>38,749</b>          | <b>38,749</b>               | <b>32,989</b>          | <b>32,989</b>               |

\*Prior to July 2008, the nominal interest rate was Base + 1%. This change does not have a significant impact on the fair value of the loans and overdraft.

All loans are in sterling.

The bank loans and overdrafts are secured by a fixed and floating charge on the assets and undertakings of the Group companies, and a first legal charge on all the freehold and leasehold properties owned by the Group. This security is subject to deeds of priority and permitted charges in favour of the HBLB in respect of security for interest-free loans provided to the Group.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2008

### 26 Loans and borrowings continued

#### Borrowing facilities

The Group has undrawn committed borrowing facilities available at 31 December 2008 in which all conditions have been met:

|                                  | Floating rate<br>2008<br>£'000 | Floating rate<br>2007<br>£'000 |
|----------------------------------|--------------------------------|--------------------------------|
| Expiry within one year           | 5,497                          | 6,500                          |
| Expiry between one and two years | –                              | –                              |
| Expiry in more than two years    | 17,400                         | 643                            |
|                                  | <b>22,897</b>                  | <b>7,143</b>                   |

#### Finance lease liabilities

Finance lease payments are due as follows:

|   | Minimum lease<br>payments<br>2008<br>£'000 | Interest<br>2008<br>£'000 | Present<br>value<br>2008<br>£'000 |
|---|--|---------------------------|-----------------------------------|
| Not later than one year                           | 45   | 64                        | (19)                              |
| Later than one year and not later than five years | 281  | 270                       | 11                                |
| Later than five years                             | 5,453                                      | 4,799                     | 654                               |
|   | <b>5,779</b>                               | <b>5,133</b>              | <b>646</b>                        |

|   | Minimum lease<br>payments<br>2007<br>£'000 | Interest<br>2007<br>£'000 | Present<br>value<br>2007<br>£'000 |
|---|--|---------------------------|-----------------------------------|
| Not later than one year                           | 45   | 59                        | (14)                              |
| Later than one year and not later than five years | 256  | 267                       | (11)                              |
| Later than five years                             | 5,524                                      | 4,867                     | 657                               |
|   | <b>5,825</b>                               | <b>5,193</b>              | <b>632</b>                        |

The lease in respect of Doncaster Racecourse provides for additional future payments that are contingent upon changes in the Retail Price Index. Contingent rents will be recognised in the income statement when payable.

### 27 Financial instruments

#### Risk management

The Board has overall responsibility for the Group's risk management framework. The Finance Director is responsible for developing and monitoring the Group's risk management policies and reporting to the Board.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate controls and to monitor risks and adherence to controls. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Board oversees how management monitors compliance with the Group's risk management policies and procedures.

The Group is exposed through its use of financial instruments to one or more of the following financial risks:

- Interest rate risk;
- Liquidity risk; and
- Credit risk.

The policy for each of the above risks is described in more detail below.

## 27 Financial instruments continued

### Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the Group's profits. The objective of management is to control interest rate risk exposures.

With the exception of interest-free borrowing from the HBLB, the Group's bank borrowings are at floating interest rates. All of the Group's borrowings are in sterling.

In 2006, the Group entered into an interest rate cap and collar arrangement in respect of £12.0m of debt which became effective on 1 October 2007. In 2008, the Group entered into an interest rate swap arrangement in respect of £7.5m of debt and an interest rate cap arrangement in respect of £2.5m of debt, both of which became effective on 2 October 2008. As at 31 December 2008, the Group was exposed to interest rate risk on debt above these amounts. The Board constantly monitors the financial markets and the Group's future borrowing requirements to ensure that this policy remains in the Group's interest.

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity risk is managed centrally on a group basis to ensure the Group will have sufficient liquidity to meet its liabilities when they fall due.

Bank facilities are agreed at appropriate levels having regard to the Group's forecast operating cash flows and future capital expenditure requirements. The Group maintains the following lines of credit, all of which are with Bank of Scotland:

- £5.0m Group secured overdraft facility. Interest is payable at LIBOR plus 1%;
- £1.5m Doncaster Racecourse Management Company Ltd secured overdraft facility. Interest is payable at the Bank of Scotland base rate plus 1%;
- £10.0m Group secured revolving credit loan which can be drawn for working capital and general corporate use. Interest is payable at LIBOR plus 1%;
- £8.5m Group secured term loan which can be drawn for working capital and general corporate use. Interest is payable at LIBOR plus 1%;
- £13.0m Doncaster Racecourse Management Company Ltd secured term loan which can be drawn to fund the development costs of Doncaster Racecourse. Interest is payable at LIBOR plus 1%; and
- £23.0m Group secured term loan which can be drawn to fund approved development projects, including specifically the Lingfield Park hotel development. Interest is payable at LIBOR plus 2.5%.

It is the Group's policy not to commence construction on development projects until funding has been secured.

Further details on the loan terms, repayments and committed borrowing facilities of the Group are disclosed in Note 26.

### 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 Group has limited exposure to credit risk. Income derived from much of the Group's race day activity is paid on the day of the event or is invoiced and paid in advance of the event. With the exception of a small number of significant centrally negotiated transactions, credit control is managed on a local basis.

Although the Group is exposed through the derivation of a high proportion of its income from a small number of sources, these sources are the HBLB, which is operated under Government statute; BAGS, for which a central contract exists for fees payable in return for transmission of pictures of live racing into licensed betting shops across the UK; and our 45.85% joint venture company, ATR, to which we sell our media rights. It is therefore the view of the Board that credit risk is minimal.

The Group has established an allowance for impairment, representing its estimate of incurred losses in respect of trade and other receivables. This allowance relates to specific individual exposures.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2008

### 27 Financial instruments continued

#### Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company's objective for managing its capital is to ensure that Group entities will be able to continue as a going concern while maximising the return to shareholders, as well as sustaining the future development of its business. In order to maintain or adjust the capital structure, Arena may alter the total amount of dividends paid to shareholders, return capital to shareholders, issue new shares, draw down additional debt or sell assets to reduce debt. It is the Group's policy to look for a return of 10-15% on net cash cost when evaluating development projects. The Board monitors the level of dividends to ordinary shareholders.

With the exception of the suspension of the 2008 final dividend for the purpose of conservative cash flow management, Arena's overall strategy remains unchanged from the previous year.

It is the Board's policy to ensure there is a strong link between the remuneration of the Directors and other key employees and the performance of the Group. Final grants under the Arena Leisure Discretionary Share Option Scheme were made in 2006 and shareholder approval was obtained in April 2007 for a new long-term incentive plan ('LTIP'), with initial awards being made in June 2007 and further awards made in April and May 2008.

Arena's capital structure consists of debt, which includes the loans and borrowings disclosed in Note 26, cash and cash equivalents (Note 24) and equity attributable to the parent, comprising share capital, reserves and retained earnings, as disclosed in Notes 29 and 30. The Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

#### Financial assets and liabilities

##### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit exposure to credit risk at the reporting date was:

|                                       | 2008<br>£'000 | 2007<br>£'000 |
|---------------------------------------|---------------|---------------|
| Cash and cash equivalents (Note 24)   | 168           | 3,735         |
| Trade and other receivables (Note 21) | 5,415         | 6,191         |
| Loans to ATR (Note 19)                | 4,965         | 4,979         |
|                                       | <b>10,548</b> | <b>14,905</b> |

The presentation of the 2007 comparative has been adjusted to include the loans to ATR. In 2007, ATR was loss making and, as a result, the loans were not included as a financial asset within the financial instruments disclosures.

The maximum exposure to credit risk for trade and other receivables at the reporting date by source of income was:

|                   | 2008<br>£'000 | 2007<br>£'000 |
|-------------------|---------------|---------------|
| HBLB              | -             | 323           |
| BAGS              | 1,323         | 1,263         |
| ATR               | 409           | 531           |
| Loans to ATR      | 4,965         | 4,979         |
| Other receivables | 3,683         | 4,074         |
|                   | <b>10,380</b> | <b>11,170</b> |

**27 Financial instruments** continued

## Impairment losses

The ageing of trade receivables (see Note 21) at the reporting date was:

|                     | 2008<br>£'000 | 2007<br>£'000 |
|---------------------|---------------|---------------|
| Not past due        | 2,295         | 2,276         |
| Past due 0-30 days  | 485           | 418           |
| Past due 31-60 days | 405           | 150           |
| More than 60 days   | 99            | 412           |
|                     | <b>3,284</b>  | <b>3,256</b>  |

In 2008, the allowance for impairment in respect of trade receivables was £365,000 (2007: £39,000). This allowance is made up of £287,000 relating to racing services provided to a customer which has gone into administration and several individually insignificant specific exposures (2007: all individually insignificant exposures).

## Liquidity risk

The following are the contractual maturities (including estimated interest) of financial liabilities:

|  | Carrying<br>amount<br>£'000 | Contractual<br>cash flows<br>£'000 | Less than<br>1 year<br>£'000 | 1-2 years<br>£'000 | 2-5 years<br>£'000 | More than<br>5 years<br>£'000 |
|--|-----------------------------|------------------------------------|------------------------------|--------------------|--------------------|-------------------------------|
| <b>At 31 December 2008</b>                               |                             |                                    |                              |                    |                    |                               |
| Secured bank loans (Note 26)                             | 37,100                      | 45,069                             | 4,114                        | 12,838             | 15,759             | 12,358                        |
| Other loans (Note 26)                                    | 5,642                       | 6,557                              | 1,737                        | 3,220              | 1,600              | –                             |
| Trade and other payables excluding derivatives (Note 23) | 5,621                       | 5,621                              | 5,621                        | –                  | –                  | –                             |
| Accruals (Note 25)                                       | 2,572                       | 2,572                              | 2,572                        | –                  | –                  | –                             |
| Derivatives – interest rate hedging agreements (Note 23) | 1,456                       | 1,479                              | 383                          | 383                | 713                | –                             |
|  | <b>52,391</b>               | <b>61,298</b>                      | <b>14,427</b>                | <b>16,441</b>      | <b>18,072</b>      | <b>12,358</b>                 |
| <b>At 31 December 2007</b>                               |                             |                                    |                              |                    |                    |                               |
| Secured bank loans                                       | 32,357                      | 42,811                             | 3,584                        | 3,487              | 18,330             | 17,410                        |
| Other loans  | 6,952                       | 8,300                              | 1,743                        | 1,737              | 4,820              | –                             |
| Trade and other payables                                 | 6,475                       | 6,475                              | 6,475                        | –                  | –                  | –                             |
| Accruals   | 2,302                       | 2,302                              | 2,302                        | –                  | –                  | –                             |
|  | <b>48,086</b>               | <b>59,888</b>                      | <b>14,104</b>                | <b>5,224</b>       | <b>23,150</b>      | <b>17,410</b>                 |

Interest on the secured loans has been estimated using 12-month LIBOR at 31 December 2008 (2007: 12-month LIBOR or Bank of Scotland base rate at 31 December 2007, as applicable).

The carrying amount of financial derivatives is based on the market valuation as at 31 December provided by the Bank of Scotland. The contractual cash flows of financial derivatives are made by reference to the differential between the nominal rate of the instrument and the forward swap rate over the period of the instrument. For cap instruments, the rate is below the contracted rate and, as a result, no cash flow is projected.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2008

### 27 Financial instruments continued

#### Interest rate risk

The currency and interest profile of the Group's financial assets and liabilities are as follows:

|          | Floating rate liabilities |               | Interest-free liabilities |               | Total           |               |
|----------|---------------------------|---------------|---------------------------|---------------|-----------------|---------------|
|          | 2008<br>£'000             | 2007<br>£'000 | 2008<br>£'000             | 2007<br>£'000 | 2008<br>£'000   | 2007<br>£'000 |
| Sterling | <b>(39,548)</b>           | (32,357)      | <b>(17,953)</b>           | (15,221)      | <b>(57,501)</b> | (47,578)      |

|          | Floating rate assets |               | Interest-free assets |               | Total         |               |
|----------|----------------------|---------------|----------------------|---------------|---------------|---------------|
|          | 2008<br>£'000        | 2007<br>£'000 | 2008<br>£'000        | 2007<br>£'000 | 2008<br>£'000 | 2007<br>£'000 |
| Sterling | <b>5,133</b>         | 8,714         | <b>3,936</b>         | 4,819         | <b>9,069</b>  | 13,533        |

The rate at which sterling floating liabilities are payable is 1% above Bank of Scotland base rate or LIBOR, or 2.5% above LIBOR (2007: 1% above Bank of Scotland base rate or LIBOR).

In respect of the floating rate liabilities, a change of 100 basis points in interest rates at the reporting date would result in the following increase/(decrease) in profit and loss:

| Cash flow sensitivity floating rate instruments | Profit or loss              |                             |
|---|-----------------------------|-----------------------------|
|   | 100 bp<br>increase<br>£'000 | 100 bp<br>decrease<br>£'000 |
| At 31 December 2007                             | (166)                       | 255                         |
| <b>At 31 December 2008</b>                      | <b>(184)</b>                | <b>184</b>                  |

The above analysis assumes that all other variables remain constant.

#### Fair values

The book value and fair value of financial assets and liabilities are as follows:

|  | 2008                   |                        | 2007                   |                        |
|--|------------------------|------------------------|------------------------|------------------------|
|  | Book<br>value<br>£'000 | Fair<br>value<br>£'000 | Book<br>value<br>£'000 | Fair<br>value<br>£'000 |
| Trade and other receivables (Note 21)                    | <b>5,415</b>           | <b>5,415</b>           | 6,191                  | 6,191                  |
| Cash and cash equivalents (Note 24)                      | <b>179</b>             | <b>179</b>             | 3,735                  | 3,735                  |
| Loans to ATR (Note 19)                                   | <b>4,965</b>           | <b>4,965</b>           | 4,979                  | 4,979                  |
| Derivatives – interest rate hedging agreements (Note 23) | <b>(1,456)</b>         | <b>(1,456)</b>         | –                      | –                      |
| Bank loans (Note 26)                                     | <b>(37,100)</b>        | <b>(37,100)</b>        | (32,357)               | (32,357)               |
| Other loans (Note 26)                                    | <b>(5,642)</b>         | <b>(5,642)</b>         | (6,952)                | (6,952)                |
| Trade and other payables excluding derivatives (Note 23) | <b>(6,394)</b>         | <b>(6,394)</b>         | (6,475)                | (6,475)                |
| Accruals (Note 25)                                       | <b>(2,572)</b>         | <b>(2,572)</b>         | (2,302)                | (2,302)                |
| Bank overdraft (Note 24)                                 | <b>(1,003)</b>         | <b>(1,003)</b>         | –                      | –                      |
|  | <b>(43,608)</b>        | <b>(43,608)</b>        | (33,181)               | (33,181)               |

Other loans represent interest-free loans advanced from the HBLB. The balance outstanding on these loans was £6,557,000 (2007: £8,300,000).

The basis for determining fair values is disclosed in Note 4. The fair value of the interest rate hedging agreement was determined by an independent bank valuation.

## 28 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

|                     | Assets<br>2008<br>£'000 | Restated<br>Assets<br>2007<br>£'000 | Liabilities<br>2008<br>£'000 | Restated<br>Liabilities<br>2007<br>£'000 | Net<br>2008<br>£'000 | Restated<br>Net<br>2007<br>£'000 |
|---------------------|-------------------------|-------------------------------------|------------------------------|--|----------------------|----------------------------------|
| Property            | -                       | -                                   | (12,909)                     | (12,392)                                 | (12,909)             | (12,392)                         |
| Plant and equipment | 566                     | 741                                 | -                            | -  | 566                  | 741                              |
| Tax losses          | 12,343                  | 11,651                              | -                            | -  | 12,343               | 11,651                           |
|                     | 12,909                  | 12,392                              | (12,909)                     | (12,392)                                 | -                    | -                                |

The movement in temporary differences during the year is as follows:

|                     | Restated<br>At 31 December<br>2006<br>£'000 | Restated<br>Recognised in<br>income statement<br>£'000 | Restated<br>At 31 December<br>2007<br>£'000 |
|---------------------|---|--|---|
| Property            | (8,568)                                     | (3,824)  | (12,392)                                    |
| Plant and equipment | (156)                                       | 897  | 741   |
| Tax losses          | 8,724                                       | 2,927  | 11,651                                      |
|                     | -   | -  | -   |

|                     | Restated<br>At 31 December<br>2007<br>£'000 | Recognised in<br>income statement<br>£'000 | At 31 December<br>2008<br>£'000 |
|---------------------|---|--|---------------------------------|
| Property            | (12,392)                                    | (517)                                      | (12,909)                        |
| Plant and equipment | 741   | (175)                                      | 566                             |
| Tax losses          | 11,651                                      | 692  | 12,343                          |
|                     | -   | -  | -                               |

Following the reconsideration of the impact on the tax base of capital credits, the Directors have recognised a deferred tax liability on the temporary differences. In addition, the Directors have also recognised a deferred tax asset in respect of losses. To assist comparability, the comparative figures have been restated. There is no income statement or balance sheet impact of this change in treatment as at 1 December 2007, 31 December 2007 or 31 December 2008.

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

|                                  | At 31 December<br>2006<br>£'000 | Restated<br>Movement<br>in the year<br>£'000 | Restated<br>At 31 December<br>2007<br>£'000 |
|----------------------------------|---------------------------------|--|---|
| Deductible temporary differences | 442                             | (442)  | -   |
| Tax losses                       | 17,144                          | (12,378)                                     | 4,766                                       |
| Unrecognised deferred tax assets | 17,586                          | (12,820)                                     | 4,766                                       |

|   | Restated<br>At 31 December<br>2007<br>£'000 | Movement<br>in the year<br>£'000 | At 31 December<br>2008<br>£'000 |
|---|---|----------------------------------|---------------------------------|
| Unrecognised deferred tax assets – tax losses | 4,766                                       | 671                              | 5,437                           |

The Group has not provided for the deferred tax assets on the above losses, accelerated capital allowances and other short-term temporary differences as it is not probable that taxable profits in the short term will be available against which the Group can utilise the benefits therefrom.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2008

### 29 Share capital

|                            | 2008        |        | Authorised<br>2007 |        |
|----------------------------|-------------|--------|--------------------|--------|
|                            | Number      | £'000  | Number             | £'000  |
| Ordinary shares of 5p each | 429,353,724 | 21,468 | 429,353,724        | 21,468 |

|   | 2008        |        | Issued and fully paid<br>2007 |        |
|---|-------------|--------|-------------------------------|--------|
|   | Number      | £'000  | Number                        | £'000  |
| Ordinary shares of 5p each at beginning and end of the year | 364,202,007 | 18,210 | 364,202,007                   | 18,210 |

The Group has also issued share options and awards (see Note 33).

The holders of ordinary shares are entitled to receive dividends as declared from time-to-time and are entitled to one vote per share at meetings of the Company.

### 30 Reserves

|                                       | Share<br>premium<br>account<br>£'000 | Merger<br>reserve<br>£'000 | Retained<br>earnings<br>£'000 | Minority<br>interest<br>£'000 |
|---------------------------------------|--------------------------------------|----------------------------|-------------------------------|-------------------------------|
| At 1 January 2007                     | 223                                  | 5,417                      | 40,455                        | (33)                          |
| Profit/(loss) for the year            | -                                    | -                          | 5,935                         | (91)                          |
| Minority interest equity contribution | -                                    | -                          | -                             | 2,000                         |
| Dividends paid                        | -                                    | -                          | (1,858)                       | -                             |
| Share-based payment expense           | -                                    | -                          | 153                           | -                             |
| At 31 December 2007                   | 223                                  | 5,417                      | 44,685                        | 1,876                         |
| Profit/(loss) for the year            | -                                    | -                          | 4,083                         | (67)                          |
| Dividends paid                        | -                                    | -                          | (2,003)                       | -                             |
| Share-based payment expense           | -                                    | -                          | 220                           | -                             |
| <b>At 31 December 2008</b>            | <b>223</b>                           | <b>5,417</b>               | <b>46,985</b>                 | <b>1,809</b>                  |

The following describes the nature and purpose of each reserve within shareholders' equity:

| Reserve           | Description and purpose  |
|-------------------|--|
| Share premium     | Amount subscribed for share capital in excess of nominal value.  |
| Merger reserve    | The merger reserve arose due to the availability of merger relief in connection with the acquisitions of RAM Racing Leisure Ltd (Wolverhampton and Southwell Racecourses) and Royal Windsor Racecourse, partly paid by a share for share exchange, and represents the difference between the fair value of the consideration given for the shares issued and the nominal value of those instruments. |
| Retained earnings | Cumulative net gains and losses attributable to the equity shareholders of the parent company recognised in the consolidated income statement.   |
| Minority interest | Cumulative net gains and losses attributable to Doncaster Metropolitan Borough Council in respect of their minority interest in Doncaster Racecourse Management Company Ltd.   |

### 31 Operating leases

Non-cancellable operating lease rentals are payable as follows:

|                            | 2008<br>£'000 | 2007<br>£'000 |
|----------------------------|---------------|---------------|
| Less than one year         | 79            | 24            |
| Between one and five years | 234           | 171           |
| More than five years       | 4,484         | 4,579         |
|                            | <b>4,797</b>  | <b>4,774</b>  |

The Group has split the lease in respect of Doncaster Racecourse into operating and finance lease elements. The lease runs for a period of 99 years. Future lease payments are subject to additional rent payments that are based on changes in the Retail Price Index. Contingent rents will be recognised in the income statement when payable.

The payments under operating leases recognised as an expense in the year total £60,000 (2007: £12,000).

### 32 Retirement benefits

The Group operates a defined contribution pension scheme. Pension costs for the defined contribution scheme in 2008 were £210,000 (2007: £154,000). There were £22,000 unpaid contributions outstanding at the year end (2007: £nil).

### 33 Share-based payment

The Company operates a long-term incentive scheme and two share option schemes for employees: a HM Revenue & Customs approved share option scheme and an unapproved discretionary share option scheme. Final grants were made under these share option schemes in 2006.

#### Share option schemes

Performance criteria based upon the future market price of the Company's shares or growth in adjusted earnings per share are attached to each grant of options which must be met prior to exercise (see page 28 of the Directors' Remuneration Report for the specific criteria attached to each grant). In normal circumstances, employees will forfeit rights over share options six months after leaving the Company's employment, although Directors have discretionary power to extend this to one year following cessation of employment or three and a half years from the date of grant.

|                                    | 2008                            |                  | 2007                            |             |
|------------------------------------|---------------------------------|------------------|---------------------------------|-------------|
|                                    | Weighted average exercise price | Number           | Weighted average exercise price | Number      |
| Outstanding at beginning of year   | 48.23                           | 5,861,671        | 52.22                           | 8,251,739   |
| Forfeited during the year          | 39.50                           | (310,125)        | 62.00                           | (2,390,068) |
| Outstanding at the end of the year | <b>48.71p</b>                   | <b>5,551,546</b> | 48.23p                          | 5,861,671   |

The exercise price of options outstanding at the end of the year ranged between 39.5p and 105p (2007: 39.5p and 105p) and their remaining weighted average contractual life was 6.78 years (2007: 7.78 years). These shares have been sub-divided as follows:

|                       | 2008                       |                  | 2007                       |           |
|-----------------------|----------------------------|------------------|----------------------------|-----------|
|                       | Remaining contractual life | Number           | Remaining contractual life | Number    |
| Option price – 39.50p | 7.80 years                 | 3,724,046        | 8.80 years                 | 4,034,171 |
| Option price – 40.75p | 6.75 years                 | 1,000,000        | 7.75 years                 | 1,000,000 |
| Option price – 62.00p | 1.08 years                 | 100,000          | 2.08 years                 | 100,000   |
| Option price – 105.0p | 2.40 years                 | 727,500          | 3.40 years                 | 727,500   |
| Total                 | <b>6.78 years</b>          | <b>5,551,546</b> | 7.78 years                 | 5,861,671 |

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2008

### 33 Share-based payment continued

Of the total number of options outstanding at the end of the year, 1,100,000 (2007: 100,000) had vested and were exercisable at the end of the year. There were no options exercised in 2008 (2007: none).

The final grant of options was made in 2006. The weighted average fair value of each option granted in 2006 was 9.17p.

The following information is relevant in the determination of the fair value of options granted under the equity-settled share-based remuneration schemes operated by the Group:

|   | 2006          |
|---|---------------|
| <b>Equity-settled</b>                   |               |
| Option pricing model used               | Black-Scholes |
| Share price at grant date               | 39.50p        |
| Exercise price                          | 39.50p        |
| Estimated period to exercise of options | 5 years       |
| Expected volatility                     | 16%           |
| Risk-free interest rate                 | 4.75%         |

The final grants under the share option schemes were in October 2006. The valuation performed at the grant date used a volatility assumption based on statistical analysis of daily share prices over a period of 90 days. A period of 90 days was deemed by the Board to be a more appropriate basis for analysis than a three-year period owing to the distorting effect of the Group's former technology-based subsidiary and the original *attheraces* business model. The average share price over the three-year period to 31 December 2006 was therefore not representative of the Group's business model going forward.

### Long-term incentive scheme

In April 2007, shareholder approval was obtained for a long-term incentive plan ('LTIP'). The LTIP provides for annual conditional awards of shares to be made, subject to performance criteria. The first awards under the scheme were made in 2007 and are subject to absolute adjusted EPS growth targets over a three-year period. Further awards were made in 2008 and are subject to relative adjusted EPS growth targets over a three-year period (see page 29 of the Directors' Remuneration Report for the specific criteria attached to the 2007 and 2008 awards). In certain circumstances of cessation of employment (e.g. death, injury or disability, retirement, redundancy, employment being with a company which ceases to be a Group member or for other reasons as the Remuneration Committee so decides), an employee will be considered a good leaver and the shares will vest on either the date of departure or the normal vesting date, subject, in both circumstances, to a pro-rata reduction for the time served; such reduction can be waived at the discretion of the Remuneration Committee. In any other circumstance, the awards will lapse immediately upon the employee leaving the Company's employment.

|                                    | 2008        |           | 2007        |           |
|------------------------------------|-------------|-----------|-------------|-----------|
|                                    | Grant price | Number    | Grant price | Number    |
| Outstanding at beginning of year   | 70.65       | 1,229,167 | –           | –         |
| Awarded during the year            | 45.25       | 1,560,622 | –           | –         |
| Awarded during the year            | 41.30       | 338,983   | 70.65       | 1,275,168 |
| Forfeited during the year          | 70.65       | (62,986)  | 70.65       | (46,001)  |
| Outstanding at the end of the year | 54.48p      | 3,065,786 | 70.65p      | 1,229,167 |

Of the total number of LTIPs outstanding at the end of the year, none had vested at the end of the year (2007: none).

The weighted average fair value of each share awarded during the year was 44.55p (2007: 70.65p).

The volatility assumption is based on management's assessment of the amount of shares that will vest.

**33 Share-based payment** continued**Share-based remuneration expense**

The share-based remuneration expense (Note 9) comprises:

|                               | 2008<br>£'000 | 2007<br>£'000 |
|-------------------------------|---------------|---------------|
| <b>Equity-settled schemes</b> |               |               |
| Share options granted in 2005 | 21            | 21            |
| Share options granted in 2006 | 29            | 74            |
| LTIP shares awarded in 2007   | –             | 58            |
| LTIP shares awarded in 2008   | 170           | –             |
|                               | <b>220</b>    | <b>153</b>    |

At 31 December 2008, the Directors reviewed the probability of the share option and LTIP criteria being met at the vesting dates and concluded that a reduction in the expense for 2006, 2007 and 2008 grants was needed to more accurately reflect current expectations.

**34 Related party transactions**

Details of Directors' and key management remuneration are given in the Remuneration Report on pages 25 to 29 and Note 10.

Mark Elliott and Ian Renton are Directors of the Group's joint venture, At The Races. Ian Renton is a Director of the British Horseracing Authority, racing's governing and regulatory body. Mark Elliott is a Director of the Racecourse Association, the trade association of the UK's racecourses.

Transactions with these related parties are as follows:

| Related party                 | Type of transaction                                 | Transaction amount |               | Balance due to/(from) Arena |               |
|-------------------------------|---|--------------------|---------------|-----------------------------|---------------|
|                               |   | 2008<br>£'000      | 2007<br>£'000 | 2008<br>£'000               | 2007<br>£'000 |
| Racecourse Association        | Annual membership fee and related costs             | (189)              | (280)         | (20)                        | (48)          |
|                               | Sponsorship and raceday entry                       | 17                 | 2             | 1                           | 1             |
| British Horseracing Authority | Programme announcements and racing calendar adverts | (478)              | (637)         | (84)                        | (269)         |
|                               | Hospitality   | 3                  | 7             | –                           | –             |
| At The Races                  | Contribution to picture provision                   | 1,265              | 1,161         | 84                          | 324           |
|                               | Interest receivable on loans                        | 285                | 323           | –                           | –             |
|                               | Loans   | (14)               | 680           | 4,965                       | 4,979         |

The Group has not made any provision for bad or doubtful debts in respect of related-party debtors nor has any guarantee been given or received during 2008 or 2007 regarding related party transactions.

All transactions with these related parties have been undertaken on a commercial arm's-length basis.

**35 Capital commitments**

At 31 December 2008, the Group remained committed to purchase property, plant and equipment totalling £461,000 (2007: £2,794,000).

**36 Contingent liabilities**

Wolverhampton Racecourse has guaranteed an amount of \$50,000 (2007: \$50,000) to the benefit of Holiday Inns Incorporated in relation to the hotel franchise.

# Company Balance Sheet – UK GAAP Financial Statements

at 31 December 2008

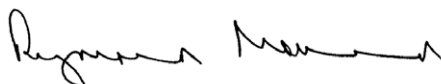
|  | Note | 2008<br>£'000  | 2007<br>£'000 |
|--|------|----------------|---------------|
| <b>Fixed assets</b>                            |      |                |               |
| Tangible assets                                | 3    | 118            | 125           |
| Investments                                    | 4    | 76,065         | 76,065        |
|  |      | <b>76,183</b>  | 76,190        |
| <b>Current assets</b>                          |      |                |               |
| Debtors – Due within one year                  | 6    | 404            | 487           |
| – Due in more than one year                    | 6    | 133,685        | 122,525       |
|  |      | <b>134,089</b> | 123,012       |
| Cash at bank and in hand                       |      | 1              | 3,374         |
|  |      | <b>134,090</b> | 126,386       |
| Creditors: amounts falling due within one year | 7    | (10,825)       | (2,469)       |
| <b>Net current assets</b>                      |      | <b>123,265</b> | 123,917       |
| <b>Total assets less current liabilities</b>   |      | <b>199,448</b> | 200,107       |
| Creditors: amounts falling due after one year  | 7    | (17,000)       | (20,000)      |
| <b>Net assets</b>                              |      | <b>182,448</b> | 180,107       |
| Called up share capital                        | 8    | 18,210         | 18,210        |
| Share premium                                  | 9    | 223            | 223           |
| Other reserve                                  | 9    | 35             | 35            |
| Merger reserve                                 | 9    | 5,417          | 5,417         |
| Profit and loss account                        | 9    | 158,563        | 156,222       |
| <b>Shareholders' funds</b>                     |      | <b>182,448</b> | 180,107       |

The notes on pages 63 to 68 form part of these financial statements.

These financial statements were approved by the Board of Directors on 18 March 2009 and signed on its behalf by:



**Mark Elliott**  
Chief Executive



**Raymond Mould**  
Chairman

# Notes Forming Part of the UK GAAP Financial Statements

for the year ended 31 December 2008

## 1 Accounting policies

The financial statements of the Company have been prepared under UK GAAP using the historical cost convention and are in accordance with applicable accounting standards and the Companies Act 1985. The presentation of the profit arising on reorganisation in 2007 has been revised by restating comparatives (see Note 2).

The following principal accounting policies have been applied on a basis consistent with the IFRS financial statements and are explained on pages 35 to 39:

- Depreciation;
- Dividends; and
- Pension costs.

The following accounting policies differ from the IFRS accounting policies:

### Financial assets and liabilities

All financial assets and liabilities are accounted for consistently with the IFRS financial statements with the exception of investments in subsidiaries which are held at cost less provisions for impairment.

### Investments in joint ventures and associates

Investments in joint ventures and associates are stated at cost less provisions for impairment.

### Deferred tax

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. In accordance with FRS 19, deferred tax is provided in respect of all timing differences that have originated, but not reversed, at the balance sheet date that may give rise to an obligation to pay more or less tax in the future. The recognition of deferred tax assets is limited to the extent that the Group anticipates making sufficient taxable profits in the future to absorb the reversal of underlying timing differences. Deferred tax is measured on a non-discounted basis.

### Share-based payment

Where share options are awarded to employees, the fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the

employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing 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 share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

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

### Financial guarantees

Where the Company enters into financial guarantee contracts and guarantees the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time that it becomes probable that the Company will be required to make a payment under the guarantee.

### Cash flow statement

The Company is exempt from the requirement to prepare a cash flow statement on the grounds that the Company is included in its own published consolidated financial statements.

## 2 Result for the period

The Company has taken advantage of the exemption allowed under Section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements.

Profit after tax for the Company was £4,169,000 for the period (2007: £3,647,000 *restated*). There were no intercompany dividends declared in 2008 (2007: none).

In 2007, a £96,045,000 profit arising from the Group reorganisation was included within profit for the year; however, this is not a realised profit and should have been shown as a movement in reserves. As a result, following discussions with the Financial Reporting Review Panel, the comparative figure has been restated (see Notes 9 and 10).

## Notes Forming Part of the UK GAAP Financial Statements continued

for the year ended 31 December 2008

### 3 Tangible fixed assets

|   | Fixtures,<br>fittings and<br>vehicles<br>£'000 |
|---|--|
| <b>Cost</b>                               |  |
| At 1 January 2008                         | 196  |
| Additions                                 | 19   |
| Disposals                                 | (5)  |
| <b>At 31 December 2008</b>                | <b>210</b>                                     |
| <b>Depreciation</b>                       |  |
| At 1 January 2008                         | (71)   |
| Charged in the year                       | (23)   |
| Disposals                                 | 2  |
| <b>At 31 December 2008</b>                | <b>(92)</b>                                    |
| <b>Net book value at 31 December 2008</b> | <b>118</b>                                     |
| Net book value at 31 December 2007        | 125  |

### 4 Investments

|  | Joint venture<br>£'000 | Subsidiaries<br>£'000 | Total<br>£'000 |
|--|------------------------|-----------------------|----------------|
| Cost at 1 January and 31 December 2008           | 2,231                  | 74,632                | 76,863         |
| Provisions at 1 January and 31 December 2008     | –                      | (798)                 | (798)          |
| Net book value at 1 January and 31 December 2008 | 2,231                  | 73,834                | 76,065         |

The principal investments of Arena Leisure Plc are detailed in Note 18 to the IFRS financial statements.

Disclosure in respect of the Company's funding obligation to At The Races is detailed in Note 19 to the IFRS financial statements.

The Company undertook a Group reorganisation in 2007. As a result, the Company sold its investments in its racing subsidiaries to Arena Leisure Racing Ltd in consideration for shares of £73,800,000 and an intercompany loan of £73,800,000. The profit on disposal was £96,045,000 (*restated*).

**5 Staff numbers and costs**

The average number of persons employed by the Company (including Directors) during the period was as follows:

|   | 2008      | 2007      |
|---|-----------|-----------|
| Racing – Management and operations          | 1         | 1         |
| Head Office – Management and administration | 11        | 10        |
|   | <b>12</b> | <b>11</b> |

|   | 2008<br>£'000 | 2007<br>£'000 |
|---|---------------|---------------|
| <b>Staff costs (including Directors)</b>        |               |               |
| Wages and salaries                              | 1,254         | 1,295         |
| Defined contribution pension cost               | 68            | 57            |
| Employer's national insurance and similar taxes | 153           | 164           |
| Share-based payment expense                     | 175           | 118           |
|   | <b>1,650</b>  | <b>1,634</b>  |

**6 Debtors**

|  | 2008<br>£'000  | 2007<br>£'000  |
|--|----------------|----------------|
| <b>Amounts falling due within one year</b> |                |                |
| Trade debtors                              | 17             | 34             |
| Other debtors                              | 174            | 321            |
| Prepayment and accrued income              | 213            | 132            |
|  | <b>404</b>     | <b>487</b>     |
| <b>Amounts due after one year</b>          |                |                |
| Amounts owed by subsidiary undertakings    | 128,721        | 117,546        |
| Loans to joint venture                     | 4,964          | 4,979          |
|  | <b>133,685</b> | <b>122,525</b> |

Interest is charged on amounts owed by subsidiary undertakings at base rate plus a 1.5% margin. Interest is charged on loans to joint venture at LIBOR plus a 1% margin.

## Notes Forming Part of the UK GAAP Financial Statements continued

for the year ended 31 December 2008

### 7 Creditors

|  | 2008<br>£'000   | 2007<br>£'000   |
|--|-----------------|-----------------|
| <b>Amounts falling due within one year</b> |                 |                 |
| Bank overdraft                             | (7,973)         | –               |
| Bank loan (secured)                        | (1,500)         | –               |
| Trade creditors                            | (888)           | (780)           |
| Amounts due to subsidiary undertakings     | (21)            | (813)           |
| Other taxation and social security         | (139)           | (96)            |
| Other creditors                            | (7)             | (314)           |
| Accruals and deferred income               | (297)           | (466)           |
|  | <b>(10,825)</b> | <b>(2,469)</b>  |
| <b>Amounts due after one year</b>          |                 |                 |
| Bank loan (secured)                        | <b>(17,000)</b> | <b>(20,000)</b> |

The bank loan and overdraft are secured by a fixed and floating charge on the assets and undertakings of the Group companies and a first legal charge on all freehold and leasehold properties owned by the Group. This security is subject to deeds of priority and permitted charges in favour of the HBLB in respect of security for interest-free loans provided to the Group.

### 8 Called up share capital

|  | 2008<br>£'000 | 2007<br>£'000 |
|--|---------------|---------------|
| <b>Authorised</b>  |               |               |
| 429,353,724 ordinary shares of 5p each (2007: 429,353,724) | <b>21,468</b> | 21,468        |
| <b>Allotted, called up and fully paid</b>                  |               |               |
| 364,202,007 ordinary shares of 5p each (2007: 364,202,007) | <b>18,210</b> | 18,210        |

Total share options in issue at 31 December 2008 were as follows:

|  | Number of<br>ordinary shares | Exercise price | Period exercisable                |
|--|------------------------------|----------------|-----------------------------------|
| (i) Under the Share Option Plan                  | 230,355                      | 105p           | 25 May 2004 – 24 May 2011         |
|  | 73,619                       | 40.75p         | 3 October 2008 – 2 October 2015   |
|  | 617,718                      | 39.50p         | 3 October 2009 – 2 October 2016   |
|  | (151,898)                    | 39.50p         | Forfeited in the period           |
|  | <b>769,794</b>               |                |                                   |
| (ii) Under the Discretionary Share Option Scheme | 100,000                      | 62p            | 25 January 2003 – 24 January 2010 |
|  | 497,145                      | 105p           | 25 May 2004 – 24 May 2011         |
|  | 926,381                      | 40.75p         | 3 October 2008 – 2 October 2015   |
|  | 3,416,453                    | 39.50p         | 3 October 2009 – 2 October 2016   |
|  | (158,227)                    | 39.50p         | Forfeited in the period           |
|  | <b>4,781,752</b>             |                |                                   |
| <b>Total</b>                                     | <b>5,551,546</b>             |                |                                   |



## Notes Forming Part of the UK GAAP Financial Statements continued

for the year ended 31 December 2008

### 10 Reconciliation of movement in shareholders' funds

|   | 2007<br>£'000 |
|---|---------------|
| Profit for the year ( <i>restated</i> )         | 3,647         |
| Profit on reorganisation                        | 96,045        |
| Dividends (Note 15 – IFRS financial statements) | (1,858)       |
| Share-based payment expense                     | 118           |
| Capital contribution                            | 35            |
| Opening shareholders' funds                     | 82,120        |
| Closing shareholders' funds                     | 180,107       |

|   | 2008<br>£'000 |
|---|---------------|
| Profit for the year                             | 4,169         |
| Dividends (Note 15 – IFRS financial statements) | (2,003)       |
| Share-based payment expense                     | 175           |
| Opening shareholders' funds                     | 180,107       |
| Closing shareholders' funds                     | 182,448       |

The 2007 profit for the year has been restated to exclude the unrealised profit of £96,045,000 arising from the Group reorganisation in 2007 (see Note 2).

### 11 Share-based payment

The Company operates a long-term incentive scheme and two share option schemes for employees: an HM Revenue & Customs approved share option scheme and an unapproved discretionary share option scheme. Details are disclosed in Note 33 to the IFRS financial statements.

### 12 Capital commitments

Disclosure in respect of capital commitments is given in Note 35 to the IFRS financial statements.

### 13 Related party transactions

The Doncaster Racecourse Management Company Ltd ('DRMC') and Worcester Racecourse Ltd ('Worcester') are 81% subsidiaries of the Company. During the year, the Company charged DRMC £739,000 (2007: £399,000) and Worcester £162,000 (2007: £39,000) in relation to management services and Group interest. DRMC charged the Company £48,000 (2007: £206,000) in relation to capital credits and interest on deposits. Worcester charged the Company £nil in the year (2007: £9,000 in relation to Group sponsorship). The balance due to the Company at 31 December was £4,187,000 in respect of DRMC (2007: £1,215,000 owed to DMRC) and £985,000 (2007: £764,000) in respect of Worcester.

# Independent Auditors' Report

to the shareholders of Arena Leisure Plc

We have audited the Group and parent company financial statements ('the financial statements') of Arena Leisure Plc for the year ended 31 December 2008 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

## Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 20.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes the information presented in the Chief Executive's Statement and Review of Operations, the Financial Review and the Corporate Social Responsibility section, which are cross referred from the Business Review section of the Directors' Report.

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

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Independent Auditors' Report continued

to the shareholders of Arena Leisure Plc

### Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

### Opinion

In our opinion:

- The Group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- The parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2008;
- The parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- The information given in the Directors' Report is consistent with the financial statements.

### KPMG Audit Plc

Chartered Accountants  
Registered Auditor

18 March 2009

8 Salisbury Square  
London EC4Y 8BB

## Five Year Record

|                         | Year to<br>31 December<br>2008<br>£'000 | Year to<br>31 December<br>2007<br>£'000 | Year to<br>31 December<br>2006<br>£'000 | Year to<br>31 December<br>2005<br>£'000 | Year to<br>31 December<br>2004<br>£'000 |
|-------------------------|---|---|---|---|---|
| Revenue*                | <b>64,825</b>                           | 57,920                                  | 45,259                                  | 40,747                                  | 37,229                                  |
| Profit from operations* | <b>7,134</b>                            | 5,897                                   | 6,195                                   | 5,893                                   | 5,174                                   |
| Tangible fixed assets   | <b>119,734</b>                          | 108,283                                 | 86,054                                  | 70,615                                  | 68,867                                  |
| Net assets              | <b>72,644</b>                           | 70,411                                  | 64,272                                  | 59,773                                  | 57,196                                  |

\*Adjusted as follows:

2004 – Excludes Arena Online Services Ltd which was discontinued during 2004.

2005 – Excludes profit on sale of SIS shares.

2006 – Excludes release of unclaimed share proceeds on purchase of subsidiary undertaking.

2007 – Excludes impairment loss in respect of Royal Windsor Racecourse.

## Shareholder Information

### Analysis of shareholders

Number of shareholders: 6,969 as at 17 March 2009

|                        | Shareholders<br>% | Shares<br>% |
|------------------------|-------------------|-------------|
| 1,000 and under        | 57.9              | 0.3         |
| 1,001 to 5,000         | 27.9              | 1.3         |
| 5,001 to 10,000        | 6.3               | 0.9         |
| 10,001 to 100,000      | 6.4               | 3.9         |
| Over 100,000           | 1.5               | 93.6        |
| <b>Held by</b>         |                   |             |
| Banks                  | 0.1               | 0.1         |
| Nominee companies      | 6.9               | 46.6        |
| Other corporate bodies | 0.8               | 47.7        |
| Individuals            | 92.2              | 5.6         |

## Company Information

### Head and registered office

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Telephone +44 (0)20 7632 2080  
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contact@arenaleisureplc.com  
www.arenaleisureplc.com

### Company secretary

Robert Mercer FCMA

### Registered number

857819

### Auditors

KPMG Audit Plc  
8 Salisbury Square  
London EC4Y 8BB

### Solicitors

Kirkpatrick & Lockhart Preston Gates Ellis LLP  
110 Cannon Street  
London EC4N 6AR

### Principal bankers

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New Ueberior House  
11 Earl Grey Street  
Edinburgh EH3 9BN

### Stockbrokers

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30 St James's Square  
London SW1Y 4AL

### Financial advisors

Investec Bank (UK) Limited  
2 Gresham Street  
London EC2V 7QP

### Registrar and transfer office

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

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