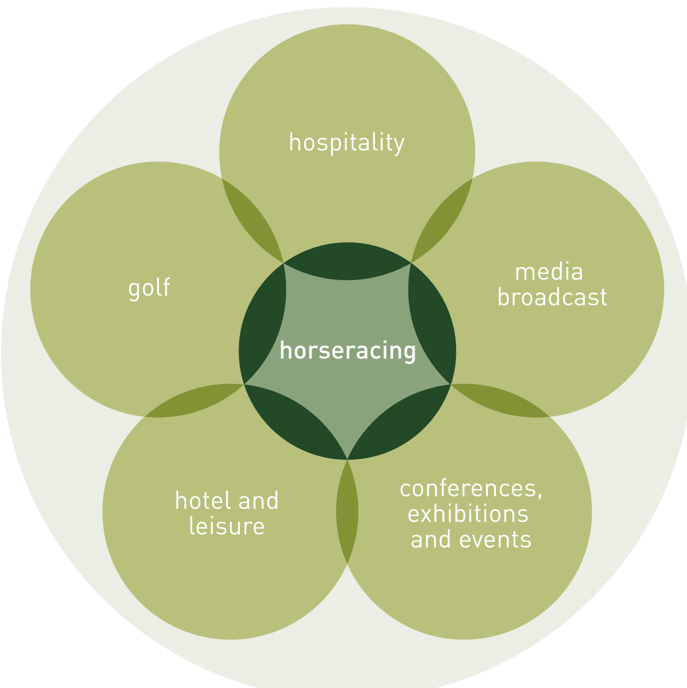
Arena Leisure Plc

Annual Report and Accounts 2007

Arena Leisure

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.



2007 Highlights

Financial highlights

Revenue
£57,920,000
2006: £45,259,000

Profit before interest and tax
£6,002,000
2006: £5,616,000

Basic earnings per share
1.63
2006: 1.61

Proposed final dividend per share
0.30p
2006: 0.26p

Operational highlights

- Wolverhampton Racecourse staged a record 121 fixtures (2006: 111) and Lingfield Park staged 106 fixtures (2006: 95).
- Unprecedented wet weather throughout much of the summer caused extensive flooding at Worcester and Southwell Racecourses. As a consequence, Arena was unable to stage 19 scheduled fixtures (2006: 4). Southwell Racecourse recommenced operations in December 2007 following the receipt of insurance proceeds totalling £6.6m.
- 347 fixtures held in the year (2006: 353), representing 26% of all UK fixtures.
- At The Races delivered an operating profit for the first time – Arena's share of operating profit was £0.2m (2006: loss of £0.3m).
- Successful creation of an 'in-house' catering business to direct, manage and operate all catering activities across Arena's racecourses.
- Contract signed in January 2008 with Great Leighs to manage its race-day operations.

Development highlights

- The first phase of the redevelopment of Doncaster Racecourse completed on time for a trial fixture in August and the successful staging of the St Leger festival in September.
- Planning permission received for a combined 120-bedroom hotel and 34-unit residential development at Doncaster Racecourse.
- Planning permission received for Wolverhampton Racecourse to expand the current hotel to 170-bedrooms and incorporate a casino to create the UK's first 'racino'.
- Government go-ahead given for the creation of eight 'large' and eight 'small' casinos, with the City of Wolverhampton recommended to receive a 'small' casino licence.
- Planning permission received for a 116-bedroom hotel and leisure development at Lingfield Park Racecourse.

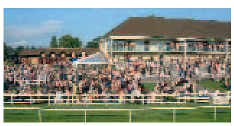
At a Glance

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. 2008 will be its first full year of operation, staging 31 fixtures.

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



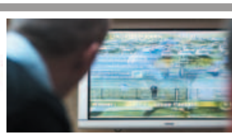
Lingfield Park
Set in 450 acres of Surrey countryside, with approval to construct a new hotel and leisure complex, creating a state-of-the-art racing, conference and leisure destination.

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

Southwell
Friendly East Midlands venue offering a variety of racing, conferencing and golf facilities. Closed due to flooding in June and re-opened in December 2007.

Wolverhampton
The UK's busiest racecourse and one of only two 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. Closed due to flooding from June 2007, re-opening April 2008.



At The Races
The UK's award-winning dedicated racing channel, taking UK and Irish racing to the widest possible national and international audience. Arena has a 47.5% shareholding.

Key
✓ In operation
● Proposed

Racing profile	Hospitality	Conferencing and banqueting	Exhibitions and events	Hotels	Leisure	Golf	Annual attendance 2007	% of UK race meetings 2008
Turf flat and National Hunt racing	✓	✓	✓	●	●		102,000 (9 fixtures)	2%
Turf flat and National Hunt racing	✓	✓	✓				39,000	2%
All-weather, turf flat and National Hunt racing	✓	✓	✓	●	✓ ●	✓	148,000	6%
Turf flat racing	✓	✓	✓				120,000	2%
All-weather, turf flat and National Hunt racing	✓	✓	✓			✓	74,000 (2006)	5%
Floodlit all-weather racing	✓	✓	✓	✓ ●	●		90,000	7%
National Hunt racing	✓	✓	✓				47,000 (2006)	1%
Broadcasting UK, Irish and international racing								

Raymond Mould
Chairman

Chairman's Statement

Without doubt, 2007 was a very challenging year for Arena. I am delighted that, despite the severe adverse weather experienced during the middle of the year and an unprecedented level of abandoned fixtures, Arena was able to meet revised market expectations with profit before interest and tax of £6.0m (2006: £5.6m) and a growth in earnings per share of 1.2% to 1.63p.

Despite the loss of two racecourses for a significant part of the year, Arena retained its position of staging over one-quarter of all horseracing in the UK.

Importantly, Arena made significant progress with each of the strategically important developments that will yield value in the coming years.

The first phase of the redevelopment of Doncaster Racecourse concluded on schedule with a trial fixture staged in mid-August and the successful staging of the Ladbrokes St Leger festival in September. The second phase involves the construction of a 120-bedroom hotel with 34 residential apartments, for which planning permission was received during the year. Planning permission was also finalised for a development at Lingfield Park Racecourse incorporating a 116-bedroom hotel, leisure club, restaurant and bar, golf clubhouse and hospitality boxes. At Wolverhampton Racecourse, planning permission was received for an expansion of the existing hotel from 54 to 170-bedrooms, the construction of a new conference, exhibition and banqueting suite, a new leisure facility featuring a swimming pool and the incorporation of a casino, thereby creating the UK's first 'racino'. In a related development, the Government laid an order before Parliament at the end of February 2008 that confirmed the City of Wolverhampton as the intended recipient of one of the new 'small' casino licences. Arena hopes that Wolverhampton Racecourse will subsequently be chosen as the site for the new casino. Given the scale of developments now in the pipeline for 2008/9, the Board decided to defer consideration of any major enhancements at Royal Windsor Racecourse for at least one year. It also decided to write-down the carrying value of related development costs incurred in prior years by £1.05m.

Credit Committee approval has been received from Arena's relationship bank to provide new banking facilities to undertake the first two of the hotel projects. The Board is confident that funding will be available for the Wolverhampton development once it is confirmed that the 'racino' project will proceed.

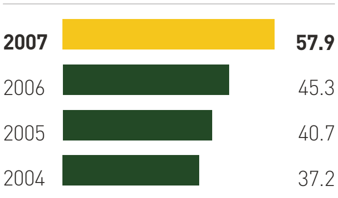
In March 2007, Arena created its own catering business and took over the operation of all food and beverage activities at six of its racecourses. Operations at the seventh track, Worcester, commenced at the beginning of March 2008. The set-up costs of the catering operation in 2007, which were exacerbated by start-up costs incurred on the re-opening of Doncaster Racecourse, amounted to around £0.4m in 2007. The business is progressing on track and is expected to increase the long-term profitability of Arena's racecourse operations.

In January 2008, Arena signed an initial one-year contract to oversee the management of racing operations at the new Great Leighs Racecourse at Chelmsford in Essex. This arrangement reflects Arena's status as the clear market leader in all-weather racing in the UK and is expected to generate the Group a profit of around £0.25m.

Trading in the important summer months was impacted by severe wet weather conditions which culminated in unprecedented and extensive flooding at both Southwell and Worcester Racecourses. As a consequence, Arena was unable to stage 19 scheduled fixtures in 2007 (2006: 4). Equally significant was the severe reduction in anticipated attendance levels at many of the high profile summer fixtures that were held across the Group, notwithstanding the weather. However, once conditions improved later in the summer, Royal Windsor Racecourse was able to break its attendance record with one crowd of over 10,000 people.

An insurance settlement of £6.6m was negotiated following the closure of Southwell Racecourse due to the effects of severe flooding. This sum covered the financial impact of both business interruption and the physical repair and replacement of assets; the latter resulting in a gain of £1.35m due to the 'new-for-old' nature of the policy. The settlement allowed an accelerated refurbishment programme and the re-opening of the Racecourse in mid-December. No insurance claim was possible in respect of the flooding at Worcester.

Revenue
£ million



Profit before interest and tax
£ million

Basic earnings per share

Revenue increased by 28.0% to £57.9m (2006: £45.3m), largely driven by the creation of the new catering business and the re-opening of Doncaster Racecourse. Profit before interest and tax for 2007 was £6.0m, in line with revised market expectations (2006: £5.6m). This includes a one-off net profit of £0.3m arising from the gain on the damaged assets element of the insurance settlement at Southwell Racecourse, net of the partial write-down of the Royal Windsor development costs. Profit before tax remained stable at £5.8m (2006: £5.8m) and earnings per share increased by 1.2% to 1.63p (2006: 1.61p).

The racecourse operations performed admirably, responding extremely well to very difficult trading conditions during the middle part of the year, and delivered an operating profit of £8.4m (2006: £8.7m). Total attendances at 573,000 were up 12.4% (2006: 510,000). This growth was aided by the re-opening of Doncaster Racecourse, offset to a large extent by flooding-related closures at Southwell and Worcester. Attendances for the UK racing industry as a whole were down by 1.0% at 5.8 million. Importantly, Arena's number of private hospitality customers, who provide the highest spend per head, grew by 30.1% to 62,700 (2006: 48,200).

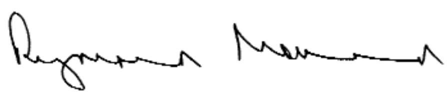
At The Races ('ATR'), which is 47.5% owned by Arena, progressed well. Arena's share of ATR's maiden operating profit was £0.2m (2006: loss of £0.3m). Arena's share of ATR's post-tax result was a loss of £0.2m (2006: loss of £0.8m).

As a reflection of the Board's confidence for the future, an interim dividend of 0.25p per share was paid in October and the Board has proposed a final dividend for 2007 of 0.30p per share (2006: 0.26p). This will give a total dividend in relation to 2007 of 0.55p per share – an increase of 7.8% over the 0.51p per share declared for 2006. This dividend is proposed to be paid on 2 May 2008 to shareholders on the register on 4 April 2008.

The dedication and hard work demonstrated by Arena's employees over the last 12 months has been tremendous and I am extremely grateful to them all. Their passion for this Company and its customers is fundamental to the future success of Arena.

Outlook

Despite the weather-related challenges that arose in 2007, the Group achieved many of its objectives. With Doncaster Racecourse successfully re-opened and looking forward to a full year of operations, Southwell and Worcester Racecourses restored following the summer flood damage and planning permission received for the major hotel-based developments, the Board is optimistic that Arena will continue to make good progress in 2008.



Raymond Mould
Chairman
5 March 2008

Mark Elliott
Chief Executive

Chief Executive's Statement and Review of Operations

Significant value will be generated from Arena's racecourse assets as the Group invests in new or expanded profit-generating opportunities that complement existing activities.

Whilst 2007 was a difficult year, particularly in terms of profitability as a result of exceptionally wet weather during the important summer months, Arena made strong progress. It was a year in which the staff responded magnificently and, in many ways, was a successful year, particularly with regard to the progress made with the business's exciting growth opportunities and the delivery of profit before interest and tax ahead of last year.

Throughout 2007, Arena owned and operated seven racecourses at Royal Windsor, Lingfield Park, Wolverhampton, Southwell, Folkestone, Worcester and Doncaster. The last of these, Doncaster, was closed for the majority of the year as it underwent a major redevelopment. It successfully re-opened in August and staged the Ladbrokes St Leger festival in September. Southwell and Worcester were both badly affected by flooding in the summer. In total, Arena's seven courses staged 26% of all horseracing in the UK in 2007. Arena's joint venture company, At The Races, delivered an operating profit for the first time.

Significant value will be generated from Arena's racecourse assets as the Group invests in new or expanded profit-generating opportunities that complement existing activities. Progress was made in this area with the re-opening of the redeveloped Doncaster Racecourse and the creation of an 'in-house' catering business to service all of Arena's racecourses. Planning permission was also received for three major developments: a hotel and residential development at Doncaster, a hotel, leisure and residential development at Lingfield Park and a hotel and casino development at Wolverhampton Racecourse.

Review of operations

Arena's racecourses achieved an operating profit in 2007 of £8.4m (2006: £8.7m). In what was otherwise a year of strong underlying performances, the start-up costs incurred in 2007 associated with the new Doncaster Racecourse and catering businesses and the impact of heavy rainfall during much of the summer combined to reduce operating profit below last year and, in particular, below our expectations.

Revenue grew by 28.0% to £57.9m (2006: £45.3m) principally from the creation of Arena's new catering business which took over the majority of Arena's food and beverage contracts in April. The full revenue from the catering activities is included for the last nine months of the year, compared to a commission receipt for both the first three months of 2007 and the whole of 2006. This additional revenue amounted to around £7.4m. The re-opening of Doncaster Racecourse in August 2007 also had a net positive effect on revenue. During Doncaster's redevelopment, most of the corresponding fixtures in 2006 had been staged elsewhere in the Arena racecourse portfolio, although generally in front of smaller crowds, and with the St Leger festival staged outside the Group at York.

Doncaster Racecourse is one of the UK's major racecourses, hosting the opening race of the flat racing season as well as the last classic race of the season – the 230-year-old St Leger. The Racecourse closed for redevelopment in January 2006 and re-opened for a trial event in mid-August 2007. It then staged the four-day Ladbrokes St Leger festival in mid-September as scheduled, with HRH the Princess Royal performing the official opening. Attendances across the four days exceeded expectations, with a modern day record of 31,000 attending the Ladbrokes St Leger, which bodes well for the future. Having taken 'delivery' of the new building only a short period before both the August fixture and the September fixture, Arena incurred some significant one-off costs which, when combined with the start-up costs incurred in establishing the new business, resulted in Doncaster Racecourse generating a loss in 2007 of £0.5m (2006: loss of £0.1m). The performance since its re-opening gives reassurance that it will operate in line with expectations and generate an increasing level of

Key highlights 2007

- Profit before interest and tax increased on prior year despite weather-affected trading and start-up costs relating to Doncaster Racecourse and the new in-house catering business.
- Arena's new in-house catering business has successfully taken over the Group's food and beverage operations at all Arena racecourses.
- Planning permission has now been received for the hotel and residential developments at Lingfield Park and Doncaster Racecourses, and for the hotel expansion and casino development at Wolverhampton Racecourse.
- The City of Wolverhampton has been confirmed as an intended recipient of a 'small' casino licence.

operating profit. 'Snagging' works are still being undertaken by the building contractor and the final cost is subject to final account; thus the total cost for the redevelopment remains an estimate at £34.9m. Arena has an 81% stake in the company that operates the Racecourse via a 99-year lease, with the local council owning the remaining 19%. For the first 30 years of operation, Arena will receive 92.5% of profits, with the council receiving the balance.

Arena's new catering business successfully launched in April 2007, taking over the catering activities at six of the Group's racecourses. On 1 March 2008, it also took over the catering operations at the seventh racecourse, Worcester. Catering is a fundamental part of the racecourse experience, becoming a central aspect of a successful and enjoyable day at the races. The Board decided that only a dedicated in-house operation could provide the passion, innovation and excellence that it demands for its customers. It recruited an enthusiastic and experienced central catering management team that relishes the opportunity that has been created; building a catering business whose objectives are perfectly aligned with those of the venues it serves, namely customer satisfaction and the generation of profitable growth. The transfer from the external caterer was successful and the new business has performed well, having a positive impact on the customer experience. The business will work with the racecourses to further improve the food and beverage offering, thereby increasing repeat business and spend per head, with a consequent increase in bottom line profitability. The costs incurred in setting up the new business include start-up costs arising on the re-opening of Doncaster Racecourse and amount to around £0.4m in 2007.

Together, the catering and Doncaster Racecourse businesses contributed a one-off loss in 2007 of £0.9m (2006: £0.1m). Without these costs, which were incurred for the long-term benefit of the Group, the operating profit from Arena's racecourses would have grown in 2007 by 5.7% to £9.3m (2006: £8.8m).

The second major impact on profitability was the severe adverse weather throughout much of the summer that culminated in the flooding of both Southwell and Worcester Racecourses.

Worcester Racecourse is within a flood plain of the River Severn and often floods during the winter months, but extremely rarely during its summer racing season. In the period to June 2007, eight fixtures were staged before the Racecourse flooded and the remainder of the season was lost. The eight fixtures staged in 2007 compare to the 21 staged in 2006. Four of the abandoned fixtures were transferred elsewhere in the Group but the remainder were lost. The loss of fixtures is unusual and arose largely due to the turf course at Southwell also being under water at the same time. Whilst none of the buildings were severely damaged, there was a significant financial impact as the Racecourse, due to its location, does not have business interruption insurance. As a consequence, the Racecourse generated a loss of £0.4m, compared to a marginal profit in 2006. The track is now in good condition and Arena looks forward to a successful 2008 summer jumping season at Worcester commencing on 6 April.

Southwell Racecourse has not flooded in living memory. However, storms in June resulted in all buildings at the Racecourse, certain areas of both the all-weather and turf courses and the golf course flooding. The damage caused to many of the buildings was severe and, with some impact on the upper levels of the all-weather track surface, the Racecourse was unable to operate. The insurance policy provided compensation for both business interruption and for damaged buildings and equipment to be repaired and/or replaced. A negotiated settlement was reached with the insurers for a sum of £6.6m and the Racecourse re-opened in mid-December. The settlement covered the financial impact of both business interruption and the physical repair and replacement of assets. The latter contributed to a net gain of £1.35m due to the 'new-for-old' nature of the policy. Taking into account the business interruption element within the insurance settlement, Southwell Racecourse traded in line with original expectations in 2007. Some repair work is still ongoing, particularly to the catering facilities, and, consequently, there is an element of the business interruption insurance settlement that has been deferred and will be recognised in 2008. The Racecourse is expected to be fully operational by the end of April 2008.

At Royal Windsor Racecourse, after a positive first half of the year in which average attendances had increased by around 20%, the third quarter of the year was particularly weather impacted. One fixture was lost to a waterlogged surface and, on a number of the usually popular Monday evenings, the wet weather caused significant reductions in attendance levels. As such, whilst Royal Windsor only lost one fixture, it was affected by generally reduced attendance levels and, consequently, profits in 2007 fell slightly below those generated in 2006. Once more settled weather returned, it was very pleasing that on a Saturday in August Royal Windsor Racecourse broke the record for its highest attendance with a crowd of just over 10,000. Early sales levels for the forthcoming season which commences on 14 April are encouraging.

At each of Wolverhampton, Lingfield Park and Folkestone Racecourses the adverse weather also had an impact. At both Wolverhampton and Lingfield Park, the proportion of advance online customer bookings was increased with a view to increasing cash flow, ensuring customer attendance and gaining valuable marketing data. This initiative was encouraged by offering significant price reductions to online bookings and generated a great deal of valuable customer information that has made possible highly targeted internet-based marketing campaigns although, in the short term, this may have held back on-the-gate attendance figures early in the year. New ticket pricing strategies and new marketing initiatives were introduced at both courses to encourage a greater number and frequency of visits. At Lingfield Park, a series of Saturday night post-racing concerts were held, although a large proportion of these were unfortunately affected by wet weather. A similar series of concerts will be staged in 2008 as an added attraction on a Saturday evening.

The various costs and shortfalls in income were mitigated to some extent by a new five-year agreement with Bookmakers Afternoon Greyhound Service Ltd ('BAGS') that commenced on 1 January 2007 for the supply of Arena's live horseracing pictures to Britain's licensed betting shops. This new contract generated around £9.9m (2006: £8.8m).

The introduction of an integrated ticketing and admission system commenced with its successful installation at Doncaster and Royal Windsor. The roll-out to the remaining racecourses in the Group will continue during 2008. The new system ensures that admissions procedures are standardised and tightened and that a greater level of information on Arena's customers is captured for marketing purposes.

Attendances and fixtures

Arena's racecourses stage fixtures throughout the year. The fixtures in June and July attract the largest crowds and, in 2007, these two months were forecast to account for around 28% of annual attendance-related income. The poor weather in these key months impacted the anticipated attendances across all Arena's courses.

The redevelopment of Doncaster Racecourse

The redevelopment of Doncaster Racecourse was a fantastic achievement, given the demanding requirements of the development programme.

In January 2005 feasibility work began for a new, modern, multi-storey grandstand incorporating: restaurants, bars, hospitality areas, betting and viewing areas, horseracing-integrity, owners and trainers and press facilities; and non-raceday facilities, including an exhibition hall and conference amenities.

The redevelopment also included: a new stables complex with an accommodation block; a new workshop and tractor shed; the complete overhaul of the existing racecourse infrastructure, including a new saddling stalls block, pre-parade and parade rings and the horsewalk; the refurbishment of the existing grandstands and ancillary buildings; and the re-laying of the flat track.

This was a daunting task given feasibility work had to commence in January 2005 and

Race-day attendances showed a 12.4% increase to 573,000 (2006: 510,000). Attendances for the UK racing industry as a whole were down by 1.0% at 5.8 million. Arena's increase resulted from the re-opening of Doncaster Racecourse in August, with attendances of 102,000 achieved at the nine fixtures staged in the year. In 2008, its first full year of operation, Doncaster Racecourse is expected to attract race-day crowds totalling around 250,000 and to reduce the proportional importance of June and July due to its relatively large crowds throughout the year, particularly with the St Leger festival in September.

Excluding Doncaster, attendances at Arena's six other courses fell 7.7% to 471,000 (2006: 510,000); a reduction that is more than accounted for by the combined 48,000 year-on-year shortfall caused by flooding-related closures at Southwell and Worcester. If Southwell and Worcester are also excluded, attendances grew by 2.3% to 398,000 (2006: 389,000), which compares favourably with the racing industry as a whole (down 2.0% on the same basis). Total attendances grew at Folkestone, Wolverhampton and Lingfield Park, in part due to additional fixtures being staged at each course. At all three, the average attendance per fixture declined very slightly due to the greater frequency of racing. Despite the underlying growth on 2006, the attendance figures fell short of both expectations and where management had positioned the cost base of the business, directly impacting profitability.

The number of private hospitality customers grew by 30.1% to 62,700 (2006: 48,200), helped by the re-opening of Doncaster and small levels of growth at Royal Windsor, Wolverhampton and Lingfield Park, offset by the closures of Worcester and Southwell. This underlying growth reflects Arena's focus on this important customer base; one that generates the highest spend per head and typically pays in advance, thereby guaranteeing attendance regardless of the weather, but also offers a market that Arena believes has strong growth potential.

The increased attendances were achieved from 347 fixtures (2006: 353). These fixtures represented 26% of the UK horseracing fixture list (2006: 26%). The reduction in fixtures staged arose from an unprecedented level of lost fixtures (2007: 19; 2006: 4), primarily due to weather-related abandonments. Of the fixtures staged, 36 were obtained due to the delayed opening of the new racecourse at Great Leighs (2006: 19) and 22 were internal transfers from the two flooded courses. These fixtures were all transferred and staged at relatively short notice which is not ideal for generating large attendances. Wolverhampton Racecourse, with its floodlit all-weather surface, staged over one-third of all Group fixtures at 121 (2006: 111) and Lingfield Park, with its all-weather and turf courses, staged 106 fixtures (2006: 95). The significant increase in short-notice fixtures contributed to the reductions at both courses in average attendance in 2007. In addition, in the last quarter of the year, around 17 new evening fixtures were staged under floodlights at Wolverhampton following the legalisation of the evening opening of betting shops during the winter months. We are optimistic that a substantially greater level of attendances at these fixtures can be generated over time. It is also notable that in the periods of increased racing frequency, there are more races run with fields of less than eight runners, which reduces the amount received from BAGS for those races. Consequently, whilst the additional fixtures proved profitable, they have had the effect of reducing average race profitability.

the project had to complete before the start of the St Leger festival in September 2007. A mere 33 months, with the only constraints being: on time, on budget and to the required specification. The designs had to be developed for the proposals to be submitted and approved by the local planning authority. Then works had to be tendered and contracts negotiated for works to commence in January 2006; a time frame of less than 12 months.

This was achieved and, in January 2006, the contractor moved in and spent four months stripping asbestos and demolishing the existing building. The following 16 months saw the construction and fit-out of the new buildings. At the same time, the Racecourse undertook its own direct works to the racing surface and infrastructure and refurbished all the existing buildings and external areas.

The Racecourse was opened to great acclaim. Alistair Down summed up the end result in the Racing Post:

"The grandstand... has been clearly planned to do a job for the racegoers using it... In short, Doncaster and the rest of us have got something of a bargain... The utilitarian racegoer-friendly stand with all the essential mod cons and no unnecessary frills shows that the track has read its market..."

Building the Doncaster Racecourse operational team

In September 2007, the Ladbrokes St Leger festival came home. Over 65,000 people attended the four-day festival, including over 13,000 private hospitality customers. A total of 328 horses raced in 27 races on the newly laid turf, and Lucarno became the latest in a line of St Leger winners going back to 1776.

2007 was, however, very different to any previous year. A new team, with a new venue, succeeded in delivering one of the most successful St Leger meetings in modern history.

The Doncaster team began to take shape in September 2006, at which point the five administrative staff were housed in temporary offices. By the time the 2007 festival went on sale on 1 February, the staff had grown to nine, with the addition of the sales team. Over £400,000 of sales were taken on the first day.

The operations staff joined the team in early summer 2007. They had eight weeks to familiarise themselves with the demands of Doncaster's busiest meeting. This included the co-ordination of the extensive new

In 2008, Arena is currently scheduled to stage 370 fixtures, again representing around 26% of the UK horseracing fixture list. This includes 17 fixtures transferred from Great Leighs that are not expected to be repeated in 2009 and 85 fixtures acquired in the British Horseracing Authority ('BHA') fixture bidding process (2007: 66), of which 18 are additional new floodlit winter evening fixtures in the first quarter. In 2009, the number of fixtures is currently expected to be around 354, assuming a similar number of acquired BHA fixtures.

Racing industry developments

In December 2006, the Government announced the extension of the Levy until such time as a secure and adequate alternative commercial funding arrangement could be identified. The Levy is the major source of funding for the UK racing industry. In 2007, Arena received £19.4m from the Levy (2006: £19.1m), representing 33.5% of Arena's revenue (2006: 42.2%), the majority of which funds prize money payments. In October 2007, no agreement was reached on the funding level for the year 2008/9. In February 2008, the Department of Culture Media and Sport announced a continuation of the funding at the same level as for 2007-2008 i.e. a 10% charge on gross profits. The announcement highlighted the need for racing and the betting industry to move away from an adversarial approach and to engage in a modernisation of the Levy process. Modernisation is a central element in improving the dialogue between the racing and betting industries within the Levy Board. In subsequent speeches, the Sports Minister has reiterated that the Levy will remain in place until such time as both parties can agree on an appropriate alternative.

The BHA came into existence in July 2007, combining racing's regulatory and governance functions. Ian Renton, Arena's Racing Director, is a member of the BHA board, nominated by the UK's racecourses. Racing Enterprises Limited was also established as the industry's commercial entity, jointly owned by the UK racecourses and the Horsemen's Group.

The Gambling Act 2005 came into effect in September 2007 enabling the previously mentioned evening opening of betting shops. It also removes the 'five-times rule' which states that bookmakers can only be charged five-times the admission price for the section of the racecourse in which they operate. As a result, from 2012, racecourses will be able to enter into direct commercial arrangements with the on-course bookmakers.

The Government has recently rejected a bid by a consortium of racing interests for the privatisation of the Horserace Totalisator Board ('the Tote'), which owns 540 betting shops and has the exclusive licence to run pool betting on horseracing in the UK. The Government now intends to prepare for an open market sale and will appoint advisers to advise it on its strategic options. The Government confirmed its intention to make available to racing half the net proceeds of any open market sale in the event that a sale to racing itself did not prove possible and is considering how best to give effect to that undertaking in ways which meet the needs of racing, do not add unnecessary bureaucracy and are consistent with European state aid and competition regulations.

At The Races ('ATR')

The media rights value of the races staged at Arena's courses is delivered through ATR, a joint venture in which Arena and BSkyB both have a 47.5% stake. ATR has media rights arrangements in place with 30 UK racecourses, providing it with the exclusive right to broadcast nearly 60% of all UK fixtures on non-terrestrial television and other platforms. ATR also has exclusive rights to broadcast racing from all 27 Irish racecourses and consequently broadcasts more than 1,100 UK and Irish meetings each year. It maximises the value of the media rights licensed to it by making its racing product as widely available as possible, both domestically and internationally and has commercial agreements in place with all of the UK's major bookmaking companies. It generates revenue through both the facilitation of bets placed with its betting partners and the driving of ancillary revenues, such as sponsorship and advertising.

facilities with the 5,000 m² of additional marquee facilities and temporary services that are essential to the success of the festival.

At the same time, the groundstaff team was also approaching full strength. The racing surface itself – a circuit of just under two miles – was completely re-laid as part of the redevelopment, and the groundstaff team had to ensure the conditions were as close to perfect as possible for the opening day. The team was made up of both experienced racecourse groundsmen and skilled staff with no prior racing experience, but who brought extensive experience from other sports and disciplines.

The staff had their first experience of staging a race meeting as a team with the opening fixture on 17 August.

One month later, HRH the Princess Royal officially opened the new facilities on the first day of the 2007 Ladbrokes St Leger festival. Over 300 casual staff had been recruited and trained, around 700 Tote, catering and security staff were introduced to a brand new venue and over 250 stable staff tested the new stables and hostel facilities. Over £1.3m of admission sales were handled by the new ticketing systems, and an income of around £4.0m was generated by a team that had been in existence for less than 12 months.

The Ladbrokes St Leger had come home, and it was bigger and better than ever.

"The atmosphere has been out of this world – what a crowd, what a race."
John Gosden, trainer of Lucarno.

ATR continued to make good progress in 2007 and its relationship with the Irish racing industry was strengthened further. ATR had the exclusive rights to broadcast racing from all 27 Irish racecourses through to the end of 2008 and, through its arrangements with Satellite Information Services ('SIS'), these rights have now been extended for the period 2009 to 2013. This was an important 'win' for ATR, ensuring long-term access to a very important content source and reflecting the strength of the ATR proposition to the owners of racing media rights.

In 2007, ATR's revenue rose by 8.2% to £14.5m (2006: £13.4m) and it delivered an operating profit for the first time. This growth in revenue occurred across all the major areas of international distribution, sponsorship and advertising. The re-opening of Doncaster Racecourse and ATR's access to all of its racing was an important step forward.

Arena's share of ATR's operating profit was £0.2m (2006: loss of £0.3m). This improvement arose from increased revenue and reduced costs of some infrastructure contracts. ATR's operating profit, combined with a small residual cost from litigation that ended in 2006, interest on shareholder loans and a small amount of tax payable on some overseas income, resulted in Arena's share of ATR's loss after tax improving by 75% to £0.2m (2006: £0.8m).

During 2007, the ATR television channel remained the UK and Ireland's most watched, dedicated horseracing channel, regularly attracting over 1.5 million different individuals every month (2006: 1.45 million) and with channel ratings and reach at record levels. Importantly, these customers have been watching for longer and at more lucrative times, helping to drive advertising revenues. The latter is attributable to ATR's focus on maximising the number of ad breaks and ensuring their positioning as close to race 'off times' as possible, thereby encouraging viewers to stay through the ad breaks, helping to increase advertising revenues.

ATR's website, attheraces.com, has grown to be the number one horseracing and betting website in the UK and Ireland with over 500,000 unique monthly users (2006: 400,000), making it also one of the UK's most visited sports betting websites.

ATR made good progress in 2007 and, from its strong financial and operational position, this progress is expected to continue in 2008, resulting in further growth in profitability.

Racecourse developments

Significant progress was made with Arena's major new or expanded profit-generating opportunities. The first of these came to fruition with the re-opening of Doncaster Racecourse and the creation of the catering business. The remaining three projects were all dependent on the receipt of planning permission and in 2007 success was achieved with all three.

In the second phase of Doncaster's redevelopment, planning permission was received for a combined 120-bedroom four-star hotel with associated restaurant and bar areas on the lower floors and 34 residential apartments on the upper floors. Negotiations over the terms of a fixed price contract are ongoing in order to ensure that the project is delivered within Arena's cost requirements. It is hoped that the project will commence in the middle of 2008 and complete by the end of 2009. The hotel is expected to operate as a Copthorne hotel, with a management agreement close to being signed with Millennium & Copthorne. The hotel will operate closely with the extensive new facilities on the Racecourse, for the benefit of both, and will play an integral role in helping to transform Doncaster Racecourse into a world-class leisure, business and racing venue. The estimated net cost of the project is £12.0m.

At Lingfield Park, detailed permission was received in 2006 for the conversion of a leisure club into 22 residential apartments, together with the provision of a further three houses within its grounds. Outline planning permission was also received for significant improvements to the Racecourse itself and, in

November 2007, detailed planning permission was received. A total of 22 buildings will be demolished, to be replaced by a new integrated leisure building incorporating a 116-bedroom hotel, a new golf clubhouse, restaurants and bars and extensive new leisure facilities including a leisure club with a swimming pool, as well as improvements to the racing facilities. Negotiations for the fixed price contract are progressing well and a franchise agreement with Marriott is expected to be signed soon. It is expected that the development will commence in the next few months and complete by the end of 2009. The estimated net cost of the two related developments is in the region of £26.0m. The Board is exploring the option of selling the existing leisure club site with its associated planning permission and thereby reducing both the initial gross outflow and the risk associated with the additional construction and subsequent sale of the residential development.

At Wolverhampton Racecourse, planning permission was received for an expansion of the existing hotel from 54 to 170-bedrooms, the construction of a new conference, exhibition and banqueting suite, a new leisure facility featuring a swimming pool and the incorporation of a casino, thereby creating the UK's first 'racino'. The proposed expansion will help secure the long-term future of the Racecourse and will further enhance its status as a leading racing, conferencing and leisure destination for the West Midlands region. In conjunction with the change in the catering provision to Arena's in-house team, an extensive refurbishment of the Racecourse's 370-seat grandstand viewing restaurant, *Horizons*, was successfully undertaken, with both changes helping to improve the customer experience.

Running alongside this planning process is the City of Wolverhampton's desire to receive one of the proposed new casino licences. The City was recommended as a location for a 'small' casino by the Casino Advisory Panel in January 2007, with Wolverhampton Racecourse playing a prominent role in the City's application. Arena's proposed racino is capable of accommodating such a 'small' casino. The Panel commented that: "Wolverhampton well satisfies all of our criteria and if the casino happens to end up at the racecourse it would add to its uniqueness and provide an interesting and unusual social impact test". The Panel's recommendations require the endorsement of Parliament and, in February 2008, the Government laid an order before Parliament that confirmed the City of Wolverhampton as the intended recipient of one of the new 'small' casino licences. Should a small casino licence be confirmed for the City of Wolverhampton, Arena will partner with an experienced casino operator and hopes that Wolverhampton Racecourse will be chosen as the best site in the City for the casino. The integrated nature of the proposal, together with the jobs that would be both safeguarded and indeed created, would make a casino at Wolverhampton Racecourse a very exciting addition to the City. The cost of the development is estimated at £25.0m and will generate up to 280 additional jobs once fully operational. It currently looks as though this project is unlikely to commence before the start of 2009.

The Board continued to review the development opportunity at Royal Windsor Racecourse. As a result of the planning successes and the consequent scale of developments expected to be undertaken in 2008/9, the Board has deferred further

The recruitment and training of the Doncaster Racecourse catering team

Following the launch of the new in-house catering business in April 2007, there were less than six months to prepare Doncaster's team for the Group's most demanding and highest profile festival of the year.

Not one member of the previous catering team remained. The fit-out was ongoing and all supplier relationships had only just commenced. The return of the St Leger to Doncaster promised a larger audience than ever, together with three new restaurants, private dining, hospitality suites and a variety of public retail outlets, demanding nothing less than the very best in hospitality and retail catering.

A workforce of 500 was required to staff the festival and all skills, from fine dining to pouring pints and logistics, were needed. The Group was focused on recruiting from within the community and creating jobs for those nearby. The breadth of skills and numbers needed led to a multi-route campaign to reach as many people as possible and facilitate access to all those seeking interviews. This included: posters throughout colleges and Job Centres, local consideration of any major enhancements at Royal Windsor Racecourse for at least one year. It also decided to write-down the carrying value of related development costs incurred in prior years by £1.05m.

Arena expects to conclude the documentation with its relationship bank within the next few weeks on a further £38.5m of banking facilities. This brings Arena's total facilities to £78.0m which allows Arena to undertake the Doncaster and Lingfield Park hotel projects. The Board is confident that further funding will be available for the Wolverhampton development once it is confirmed that the 'racino' project will proceed.

In January 2008, Arena signed an initial one-year contract to manage the racing operations at the new Great Leighs Racecourse in Essex. Arena will work alongside the Racecourse's management team and bring its world-class expertise in the management of all-weather tracks to assist Great Leighs with the approximate 80-days racing it is set to stage each year. This arrangement is expected to net the Group a profit of around £0.25m in 2008.

Arena is also seeking to realise value from any surplus or under-utilised land assets within its extensive portfolio of freehold properties, with particular focus on surplus land at Folkestone and Lingfield Park Racecourses. In January 2008, Folkestone Racecourse's local planning authority commenced consultation on the new Local Development Framework. Arena has made a submission in which a bright future for the Racecourse is portrayed, but only in conjunction with a residential development on a major element of the approximate 50-acres of surplus land within the Racecourse.

The Channel Corridor Partnership ('the Partnership') – a multi-agency body focused on the area around the Racecourse – is attempting to achieve the designation of the adjacent train station as a parkway stopping station on the new high-speed route from St Pancras to Folkestone. The Partnership is expected to issue its report later in March 2008. It is likely that the benefits of a redevelopment of the Racecourse and the unlocking of value from the surplus land, if any, will be seen in the medium to longer term. At Lingfield Park, a review of the approximate 125-acres of surplus land will commence shortly with a view to determining the potential long-term development opportunities.

Arena is in good shape to continue to deliver increasing shareholder value from the Group's extensive asset base.

Mark Elliott
Chief Executive
5 March 2008

advertising such as Doncaster Free Press, recruitment banners on-course and open days throughout the summer.

The response was fantastic, with over 600 local people applying. With less than six weeks remaining until the St Leger festival and with just one operational race meeting on 17 August beforehand, every applicant had to go through the selection process and be assessed for specific roles. The process used one-to-one sessions to establish fit and availability and to identify potential supervisors and managers.

Successful applicants were then put through an induction programme in groups of 20 covering the values of the Group, aspects of legislative and procedural requirements and the training required to ensure the customers received the very best in hospitality. The Group's catering Training and Development Manager ensured the team had specific role training to make certain that customers would be served by people confident in their roles.

The result was hugely rewarding, as the modern day record crowd enjoyed hospitality at the very highest level and rave reviews were received from the press and customers alike. In addition, two of the three restaurants received four-star ratings and the third received a five-star rating from the local council, emphasising the success of the catering team.

Robert Mercer
Chief Financial Officer

Financial Review

Despite atrocious weather conditions affecting trading in the middle of the year and the impact of start-up costs in respect of Doncaster and the new in-house catering operation, profit before and after tax were held in line with last year.

Results overview

Group revenue for the year to 31 December 2007 increased by 28.0% to £57.9m (2006: £45.3m) principally as a result of the launch of Arena's new in-house catering division in April 2007 and the re-opening of Doncaster Racecourse in August 2007. The impact on revenue of the change from a royalty-based income under the former catering contract to accounting for the gross catering revenue receivable on an in-house basis added £7.4m to revenue in the period. Profit before and after tax remained in line with last year at £5.8m (2006: £5.8m). Earnings per share increased by 1.2% to 1.63p (2006: 1.61p).

Racecourse operations

Operating profit in respect of the racecourse division reduced by 3.4% in the period to £8.4m (2006: £8.7m). Trading results were significantly affected by the extreme wet weather during the traditionally busy summer period and start-up costs in respect of Doncaster Racecourse and the new in-house catering business. The trading results of the racecourse division also include £1.37m of insurance proceeds in respect of compensation for the business interruption at Southwell Racecourse caused by flooding. Excluding the start-up costs in respect of Doncaster (£0.5m) and the new catering operation (£0.4m), the underlying operating profit for the racecourse operations was 5.7% up on last year at £9.3m (2006: £8.8m).

Total raceday attendances in the year increased by 12.4% to 573,000 (2006: 510,000) having staged 347 race meetings in the period, which represents a reduction of 1.7% on the prior year (2006: 353). The increase in attendance arose principally due to the re-opening of Doncaster Racecourse in August 2007 and the nine race meetings it staged in the period which attracted a crowd of 102,000. Excluding attendance at the Doncaster race meetings, the underlying Group attendance fell by 7.7% to 471,000 (2006: 510,000) which is principally attributable to the impact of the flood-related closures at Southwell and Worcester. Attendances at Folkestone, Wolverhampton, Royal Windsor and Lingfield Park grew in aggregate by 2.3% to 398,000 (2006: 389,000), although this was due in part to the staging of an increased number of race meetings at these tracks, largely arising from the transfer of meetings from Southwell and Worcester.

In total, average attendance per race meeting increased by 14.3% to 1,651 (2006: 1,445). This includes the benefit of the higher attendance levels at Doncaster Racecourse, which, for the first time for Arena, included the St Leger festival. Excluding Doncaster, average attendance per meeting reduced by 3.7% to 1,390 (2006: 1,445).

Average contribution per race meeting in the year increased by 11% to £48,000 (2006: £43,000); the principal reason for the increase being the re-opening of Doncaster Racecourse and the positive impact of the St Leger festival during this period. Contribution generated from an individual race meeting can range from a small loss in exceptional cases to in excess of £400,000.

Insurance claim

During the year, the Group received insurance proceeds of £6.6m in respect of a major flood-related insurance claim at Southwell Racecourse. The total proceeds include £2.0m compensation for business interruption, of which £1.4m is credited to other income in 2007 and £0.6m is carried forward as deferred income to offset the ongoing disruption, relaunch and project management costs which will impact upon 2008. The remaining £4.6m represents compensation for the physical damage to assets at the Racecourse. The Directors have assessed the book value of the assets damaged or destroyed in the flood and, in total, have written off £3.2m in the period. The net surplus of insurance proceeds over the cost of assets written off is £1.4m and reflects the new-for-old nature of the insurance claim. This is included in non-operating income and expense in the income statement.

Key highlights 2007

- Group revenue increased by 28.0%, principally due to the launch of the in-house catering operation and the re-opening of Doncaster Racecourse.
- Underlying racecourse operating profit (excluding start-up costs) increased by 5.7% to £9.3m (2006: £8.8m).
- Total attendance increased by 12.4% due to the successful re-opening of Doncaster Racecourse.
- A modern day record crowd of over 31,000 was achieved on St Leger day.

Impairment provision

During the year, the Directors reviewed the existing development plans at Royal Windsor Racecourse and, although no final decision has been made on how the development will proceed, it is unlikely to progress in its current form. Consequently, the Directors have made an assessment of the value of the project and have made a provision of £1.1m against the carrying value of costs which they do not consider will benefit the project in the future.

Central costs

Central costs were marginally below last year at £2.46m (2006: £2.51m). Central costs include a share-based payment expense in respect of the amortisation of the share options and long-term incentive plan ('LTIP') awards of £0.12m (2006: £0.03m).

At The Races ('ATR')

The underlying performance of the Group's 47.5% joint venture, ATR, continued to improve. Arena's share of ATR's operating result improved by £0.5m over the prior year to a profit of £0.2m (2006: loss £0.3m). The improvement arose as a result of increased revenue and some significant overhead cost reductions in respect of existing and renegotiated infrastructure costs.

Capital expenditure

During the year, the Group invested £29.2m on capital assets. The majority of this spend, £21.4m, was incurred on the redevelopment of Doncaster Racecourse, with a further £2.0m incurred on the ongoing reinstatement of Southwell Racecourse following major flood damage during the summer. A further £1.2m was spent on catering equipment and £1.9m on ongoing hotel development projects at Lingfield Park, Wolverhampton and Doncaster. The remaining £2.7m was incurred on a variety of assets including £0.7m on a major upgrade and remodelling of the *Horizons* tiered viewing restaurant at Wolverhampton. Capital additions include £0.7m of interest costs relating to development projects during the planning and construction phase.

Principal risks and uncertainties

The Group regularly reviews ongoing and potential risks which may impact upon the achievement of the Group's core aim of delivering value to its shareholders, and ensures that appropriate systems, procedures and controls are in place to mitigate them.

Development risk

Significant within the Group's strategy is the development of new and expanded revenue streams which complement the existing racecourse business. As a consequence of this strategy, the Group will shortly undertake a significant investment programme which will see the development of a new hotel and leisure facilities at Lingfield Park; a new hotel at Doncaster to complement the existing conference and exhibition business at the Racecourse; and, in due course, the expansion of the existing Holiday Inn hotel at Wolverhampton Racecourse together with, subject to securing a new 'small' casino licence, the development of the UK's first casino on a 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
- Enter into fixed price contracts with suitably experienced and established building contractors.

The Group is therefore confident that sufficient control mechanisms are in place to ensure the successful delivery of its development projects.

Commercial risk

There is a risk that weakness in consumer spend, coupled with poor weather conditions during the summer, could severely impact attendances and profit.

Arena is continuing to develop and improve its customer offering with varying racegoer packages for both public and corporate customers. The introduction of the Group's in-house catering operation allows the business to be far more flexible in its offering in order to secure business in a potentially weak market. The Group is continuing to promote discounted admission prices for advance bookings via the internet with a view to securing attendances regardless of the weather.

Operational risk

Failure to adequately manage the newly created in-house catering operation, may lead to poor customer experiences and the failure to achieve anticipated long-term commercial benefits.

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 have been implemented which monitor performance on a regular basis against predetermined targets. Financial systems and stock control are being improved by the introduction of up-to-date Electronic Point-of-Sale systems around the Group.

Strategic risk

There is a risk the Group may fail to realise value from surplus land at Folkestone Racecourse.

The Group has held constructive discussions with the local authority regarding the future development of Folkestone Racecourse and the release of land for residential development. In January 2008, the local planning authority commenced consultation on the new Local Development Framework to which Arena has made a formal submission. In addition, the Channel Corridor Partnership, a multi-agency body focused on the area around the Racecourse, has been attempting to achieve designation of the adjacent railway station as a parkway stopping station on the new high-speed route from St Pancras station in London. Arena has also secured a suitably experienced planning consultant to assist with this process and will make further representations as required.

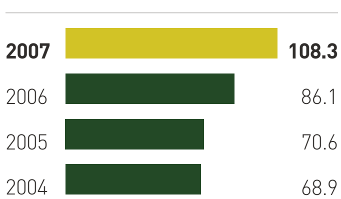
Health and safety risk

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

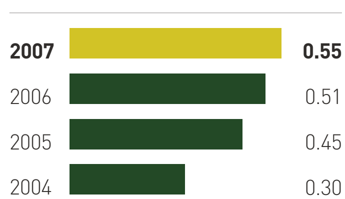
Arena takes the health and safety of its employees and customers very seriously and has employed suitably qualified and experienced health and safety managers to ensure that the Group's health and safety policies are communicated and complied with. Each racecourse employs an on-site food safety specialist who has been trained by the Group's Food Safety and Training Manager, who is responsible for monitoring catering staff training across the Group. She ensures that all catering staff receive food hygiene training. From a racing perspective, the Group employs a racing 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.

Race meetings

Fixed assets
£ million



Dividend
pence per share



Treasury report

All bank borrowings and financial assets of the Group are held in sterling and on floating interest rates.

The Group is at an advanced stage of discussion with its relationship bank to secure appropriate additional funding for its major development plans at Lingfield Park and Doncaster.

Hedging for interest rate risk is considered on a regular basis to ensure that it is appropriate for the level of debt within the Group. As the debt level increases, the Group intends to secure additional hedging instruments to limit interest rate risk in the future. The Group has an existing 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.

Interest is charged on the bank overdrafts and loans as follows:

- On bank overdrafts: at 1% over Bank of Scotland base rate;
- On the revolving credit loan: at 1% over Bank of Scotland base rate or LIBOR; and
- On term loans: at 1% over Bank of Scotland base rate or LIBOR.

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 total £7.0m at 31 December 2007 (2006: £3.7m).

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'. The valuation at 31 December 2007 has resulted in a liability of £1,000 (2006: asset £58,000) being recorded on the balance sheet and a charge of £59,000 to the income statement. The contract will be revalued at 31 December in each subsequent year and the gain or loss arising from the valuation will be taken to the income statement.

A summary of the Group's bank facilities is as follows:

Arena Leisure Plc and principal subsidiaries (excluding Doncaster Racecourse Management Company Ltd):

- Overdraft facility of up to £5.0m;
- Revolving credit facility of up to £10.0m; and
- Term loan facility of £10.0m.

Doncaster Racecourse Management Company Ltd:

- Overdraft facility of up to £1.5m; and
- Term loan facility of £13.0m.

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 taken a £0.9m credit to the income statement during the year, which reflects the fair value adjustment for interest-free loans received during the year, and a charge of £0.2m, reflecting the notional interest charge on outstanding HBLB loans received in previous periods. 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 2007, corporation tax losses representing trade and non-trade losses of £58.5m (2006: £57.1m) were available for utilisation in future years, subject to agreement with HM Revenue & Customs.

Dividends

The Board has proposed a final dividend for 2007 of 0.30p per share (2006: 0.26p per share) payable on 2 May 2008 to those shareholders on the register on 4 April 2008. This, in addition to the interim dividend of 0.25p per share (2006: 0.25p per share), will result in a total dividend for the year of 0.55p per share (2006: 0.51p per share). In accordance with IFRS, as a result of the final dividend having been declared after the 2007 year end, no provision for this liability has been made as at the balance sheet date.

Robert Mercer
Chief Financial Officer
5 March 2008

Arena Leisure Stalls Handlers
(courtesy of David Dew Photography)

Corporate Social Responsibility

Arena is committed to delivering value to shareholders. In addition to monitoring the performance of the Group in relation to its financial and strategic objectives, the Directors are mindful of the importance of assessing the Group's performance relating to environmental, employee and social and community issues as well.

Environmental matters

The Group has moved forward with its environmental policies and management systems. Early in 2007, 10 key estate management employees undertook an Environmental Management Course and, together with the Group's qualified Health and Safety Manager, have worked throughout the year to form and implement the Group's Health, Safety and Environmental Policy. This policy 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 implementation of the new procedures has resulted in the rapid expansion of the Group's recycling programme. With the introduction of new cardboard balers and glass compactors at Lingfield Park, Doncaster and Wolverhampton Racecourses, and a cardboard baler at Royal Windsor Racecourse, it is estimated that the Group recycled approximately 70 tonnes of waste during the year, and this is expected to increase in 2008 when a glass compactor is also installed at Royal Windsor.

Waste management is a key issue for the Group. The creation of the in-house catering business has increased the Group's ownership and responsibility over racecourse catering waste. To this effect, employees at Doncaster and Lingfield Park have been designated as waste management monitors to ensure that waste is being recycled, where possible, and disposed of efficiently when it is not. In the upcoming year, the Group will be looking to extend this practice to its other sites and will also be investigating methods of recycling plastic and food waste.

Of key importance to the Group was the environmental impact of the development at Doncaster Racecourse, which was completed in the year. The physical works were undertaken with regard to best practice guidelines, ensuring compliance with statutory building regulations and an effective structure in terms of levels of insulation and energy efficiency. This includes recirculation of pre-treated air in the heating cycle, low energy light-fittings, more flexible heating and lighting controls and the ability to lock-down unused parts of the grandstand. The

The Arena Leisure Catering awards

Arena encourages team competition within the Group to ensure that there is a desire for individuals to improve their own performance whilst fostering innovation. As individuals push themselves, they are in turn improving the quality of service the Group provides to its customers.

In 2007, the Arena Leisure Catering awards programme was established to find the best chef, waiter and wine-waiter within the Group, with prizes for the winners of the competition, including cash prizes and supplier-sourced prizes, such as trips to French Champagne houses.

The competition began at the racecourse level in each of the three categories. The winner in each category was chosen to represent their racecourse, giving them each a sense of pride and achievement. The competition then progressed to a regional level – North and South, resulting in two finalists for each category in the grandstand was designed to minimise the effects of solar gain in the summer and, in turn, ensure that air conditioning was only installed where essential.

Extensive works were undertaken to ensure the most efficient use of local resources. A new racetrack irrigation system was installed, together with new water pumps that draw water from an underground aquifer. The reuse of existing land drainage systems and the minimal use of impervious tarmac ensure free drainage, which continues to replenish the below-ground aquifer.

The old grandstand was recycled wherever possible. Once the hazardous components had been safely removed and disposed of, the remaining structure was put through an on-site crushing plant as it was demolished. This allowed the separation of the steel reinforcement, which was recycled, and the crushed masonry and concrete, which was reused as foundations in the new building. Any surplus crushed material was then sold for reuse in other local developments, thus also keeping transport and congestion implications to a minimum. In addition, upon re-opening, Doncaster's customers were encouraged to also minimise congestion by using the buses put on for the St Leger festival.

The environmental impacts of the imminent hotel developments at Doncaster and Lingfield Park Racecourses have also been reviewed and will be minimised to the fullest extent possible. Arena employed 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') were also consulted at all stages and signed off the proposals. The Group has assessed 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 both developments also include energy efficiency measures.

Employee matters
The recruitment and retention of the highest calibre employees is of the utmost importance to Arena. Emphasis is placed on the training and development of all staff to maintain high morale and motivation. Two of our racecourses, Wolverhampton and Southwell, hold the Investors in People accreditation standard. The process of obtaining this accreditation at the Group's other courses is continuing.

Across the Group, regular training for all site management and supervisory teams is provided, and they, in turn, are imparting that knowledge through to their staff. A regular review process is in place to monitor the systems and procedures in place, ensuring this development occurs and, in turn, motivates staff.

The development of racing staff is ultimately overseen by the racing Human Resources Manager. Group policies and procedures, including details on the employee appraisal process, are provided to all employees. Each year, numerous employees across the Group undertake safety compliance and career development courses. In 2007, this included two who have qualified as Advanced Groundsmen.

The training and development of catering staff is overseen by a Food Safety and Training Manager and a Projects and Service Development Manager. Together, they have implemented great change within the local catering teams. 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. In addition, the central catering management team has been instrumental

final competition, where a judging panel of industry specialists and catering suppliers determined the winners.

The competition motivated the teams within each site, encouraging individuals to push themselves and deliver a fantastic product, whilst also developing camaraderie. The awards presentation was preceded by the winners delivering a Christmas lunch to the Arena Board, allowing them to further showcase their talents.

The winners from the 2007 competition will now be put forward for regional and, potentially, national industry competitions, thereby increasing the profile and awareness of Arena's catering team.

The first year of the competition showed all catering employees what could be achieved with hard work and determination. As a result, interest in participating in the 2008 competition is already high, and the format of the event is being developed further.

As the awards programme progresses, several of Arena's employees are anticipated to achieve regional and national acclaim and, by 2009, it is hoped Arena will have an entry into the *Catey's*, the catering industry's 'Oscars', highlighting the calibre of the Group's employees.

in fostering a 'one team, one vision' approach within the individual racecourse catering teams, which was evidenced by bringing together for the first time the chefs from each site to deliver a fantastic summer BBQ at Royal Windsor, highlighting each chef's regional specialities.

Arena inherently relies heavily on a casual workforce for both catering and racing which differs 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 its customers.

Arena has created an Equine Services team of raceday staff who are recruited for their experience with horses and undergo further training for specific roles. The quality, consistency and continuity of the Equine Services staff ensures the welfare of the horses and jockeys, as well as the safety of the crowds, making Arena an industry leader in terms of the provision of such services. The team includes fence attendants, parade ring safety officers and stalls handlers.

Arena has been a pioneer in the field of stalls handling within the UK, firstly by creating an in-house stalls handling team, as opposed to the norm of outsourcing this to an industry organisation, and secondly by employing women in what is traditionally a male role. There are now four female handlers on the team, which works at flat race meetings across the Group. They are all experienced horsewomen, who are confident around the animals and therefore are aware of the risk involved.

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 National Joint Pitch Council 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, with the creation of the in-house catering business, has taken steps to encourage responsible drinking through the implementation of a Group-wide 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 new catering business has ensured food safety is a priority across the Group. Each racecourse employs an on-site food safety specialist who has been trained by the Group's qualified Food Safety and Training Manager, who is responsible for monitoring catering staff training across the Group. She ensures that all catering staff receive food hygiene training, including casual staff. The success of this policy is evident in there being no verified food complaint at an Arena racecourse in the catering business's first year of operation, and with awards granted by the local council to all three restaurants at Doncaster Racecourse.

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.

Future developments

The future will see Arena continuing to progress its corporate social responsibility initiatives. The recycling programme will continue to expand and the Group is seeking to produce its own bottled water; thereby reducing glass waste and the number of delivery trucks on the road. Furthermore, the contract signed for the management of racing operations at Great Leighs will see it operated under the same exceptional health and safety standards as the rest of the Arena Group.

Board of Directors

01 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.

02 Mark Elliott
Chief Executive
Mark was appointed Chief Executive in October 2005. He is a respected Executive Director in the quoted company leisure sector and was formerly Finance Director and then Chief Executive of Wembley plc. Mark trained as a Chartered Accountant with Ernst & Young. Mark is on the board of the Racecourse Association, the trade body of the UK racecourse industry.

03 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 sits on various BHA industry advisory groups and has recently been elected to the board of directors of the BHA, which took over responsibility for regulation and governance of UK horseracing in 2007.

04 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 eight charities. Andrew joined Arena in September 1999.

05 Martin McGann
Non-Executive Director
Martin, a Chartered Accountant, has an extensive background in property and finance. He is currently Finance Director of Kandahar Group, a private property company, and from 2002 he was Finance Director at Pillar Property Plc, until its disposal to British Land Plc in 2005. Between 2000 and 2002 he was Finance Director at the Strategic Rail Authority, following on from six years at Railtrack Plc, where for the last two years he was Head of Property Finance.

Directors' Report

The Directors present their Annual Report together with the audited financial statements for the year to 31 December 2007.

Results

The results of the Group are set out on page 32.

The Group

Pre-tax profit for the year to 31 December 2007 was £5,844,000 (2006: £5,817,000). Group profit on ordinary activities after tax was £5,844,000 (2006: £5,817,000). The profit attributable to equity shareholders of the parent company was £5,935,000 (2006: £5,850,000).

Dividend

The Directors recommend that a final dividend of 0.30p per share (2006: 0.26p per share) be paid on 2 May 2008 to those shareholders registered on 4 April 2008.

An interim dividend of 0.25p per share (2006: 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 13, the Financial Review on pages 14 to 17 and the Corporate Social Responsibility section on pages 18 to 20.

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 2007 were as follows:
Raymond Mould
Mark Elliott
Ian Renton
Andrew Parker Bowles OBE
Martin McGann

In accordance with the Articles of Association, Mark Elliott and Raymond Mould will retire by rotation at this year's Annual General Meeting 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 25 to 27.

Directors' interests in shares

The following table shows the beneficial interests of the Directors whom held office at 31 December 2007 in the ordinary shares of the Company:

	Fully paid ordinary shares in the Company	
	At 31 December 2007	At 31 December 2006
Raymond Mould	**1,175,000**	175,000
Mark Elliott	**–**	–
Ian Renton	**30,000**	30,000
Andrew Parker Bowles OBE	**42,000**	42,000
Martin McGann	**50,000**	50,000

No changes to the above interests in shares have been notified to the Company in the period from 31 December 2007 to 4 March 2008.

The Directors' holdings of options and awards over ordinary shares in the Company are noted in the Remuneration Report on pages 28 to 31.

The mid-market price of Arena Leisure Plc ordinary shares at 31 December 2007 was 48.0p. High and low prices were 77.5p and 46.0p respectively over the period.

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 £16,000 (2006: £15,000). No political donations were made in the year (2006: 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 33 (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 pursues 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. Furthermore, 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.

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 15 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 4 March 2008:

	Ordinary shares of 5p	% of issued share capital
Rumney Manor Ltd	108,896,000	29.9
Coatbridge Ltd	40,767,217	11.2
ABN AMRO Bank NV London	22,000,000	6.0
Uberior Investments Plc	18,647,003	5.1
Deutsche Bank AG	18,575,941	5.1
HSBC Global Custody Nominee (UK)	13,617,041	3.7
Chase Nominees Ltd	13,255,897	3.6
BNP Paribas Arbitrage SNC	12,815,320	3.5

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.

Directors' Report continued

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

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 28 April 2008 is on pages 67 to 69.

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.

During the year, the Directors conducted a review of the external auditors and appointed KPMG Audit Plc to fill the vacancy arising as a result of that review. A resolution for the reappointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board
Robert Mercer FCMA
Company Secretary
5 March 2008

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 2007 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, two Non-Executive Directors, Martin McGann and Andrew Parker Bowles, and two Executive Directors, Mark Elliott and Ian Renton, of which Mark Elliott is the Chief Executive.

Biographies of the Board members appear on page 21 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 is aware of its responsibilities to strengthen the Board at appropriate times in the Group's development.

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 28 to 31.

Full details of Directors' remuneration and a statement of the Company's remuneration policy are set out in the Remuneration Report appearing on pages 28 to 31. 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 21. 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 is 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.

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.

Corporate Governance continued

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 and Martin McGann. 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) and Andrew Parker Bowles. The recent and relevant financial experience of Martin McGann is summarised in his biography on page 21. 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. No non-audit fees were paid to the Company's auditors in 2007. The non-audit fees paid in 2006 arose in respect of tax advice, tax compliance work and other advice and were considered by the Audit Committee not to affect independence or objectivity.

During the year, the Committee, together with appropriate members of senior management, undertook a review of the external auditors. Although the quality of the service provided by the incumbent auditors was not called into question, it was the view of the Committee that a re-assessment of the external audit service would be appropriate at this stage in the Group's development. The review process resulted in a change in the Group's auditors to KPMG Audit Plc and the level of remuneration for their services has been approved.

Board and Committee meetings

The attendances at Board and Committee meetings by the Directors and senior executives of the Company during 2007 were as follows:

	Board Meetings	Remuneration Committee	Audit Committee	Nomination Committee
Number of meetings	7	2	3	2
Executive Directors				
Mark Elliott	7	2	3	n/a
Ian Renton	7	n/a	n/a	n/a
Non-Executive Directors				
Raymond Mould	6	2	n/a	2
Andrew Parker Bowles	6	2	3	2
Martin McGann	6	2	3	2
Executive Management				
Robert Mercer	7	n/a	3	n/a

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. The Board will work to implement a more formal process in the upcoming year.

Internal control

The respective responsibilities of the Directors and the auditors in connection with the accounts are explained on pages 23 to 24 within the Directors' Report and page 66 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 Group's Chief Financial Officer, who reports to the Board.

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.

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, the Group has operated a Risk Review Group overseen by Andrew Parker Bowles. The Risk Review Group consists of members of the Board and senior management. Its role is to identify, evaluate and report formally to the Board on significant risk issues.

Information provided by the Risk Review Group, internal management reporting, external auditors and industry sources provides the basis on which the Board carries out its risk review; 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 catering Food Safety and Training Manager 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 sent to all shareholders and, on request, to other parties who have 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.

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

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 Raymond Mould (Chairman), Andrew Parker Bowles and Martin McGann. 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 where 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. Advice from NBSC was also obtained in 2007. NBSC 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, Raymond Mould, questions on any aspect of the Group's remuneration policy at the 2008 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:
- Chief Executive – 29 working days' holiday per annum in addition to normal bank and public holidays. Other Executives – 25 working days' holiday per annum in addition to normal bank and public holidays;
- 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 and the maximum bonus potential of the Racing Director was increased on 1 January 2007 from 50% of salary to 60% of salary.

The Racing Director's bonus percentage was increased to reflect the move to a more performance-related culture and general wider market practice.

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 40% of salary for the Chief Executive and 24% for the Racing Director.

Long-term incentives

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

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.

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 refers to the normalised EPS of the Company, which is defined as basic EPS adjusted for certain one-off events.

Awards subject to these performance conditions were made on 11 June 2007 with Mark Elliott awarded 389,242 shares in the Company and Ian Renton awarded 226,468 shares in the Company.

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

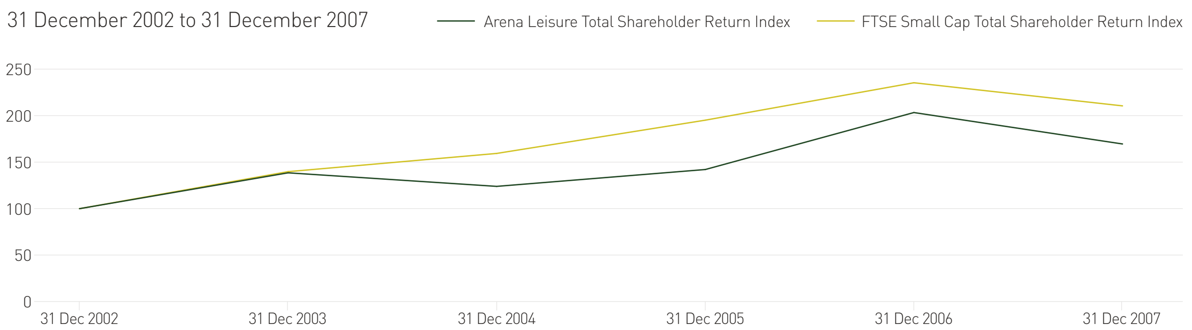
Adjusted EPS growth over the three-year performance period	Vesting percentage of the shares subject to award
Less than RPI + 12%	0%
RPI + 12%	25%
RPI + 30%	100%
Between RPI + 12% and RPI + 30%	Straight-line vesting occurs between 25% and 100%

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 had 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 2002 to 31 December 2007



Remuneration Report continued

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	1 year
Ian Renton	9 April 2001	1 year
Andrew Parker Bowles	8 September 1999	3 months
Martin McGann	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 2007					Year ended 31 December 2006	
	Salary/fee £'000	Bonus £'000	Benefits £'000	Total 2007 £'000	Pension contributions 2007 £'000	Total 2006 £'000	Pension contributions 2006 £'000
Raymond Mould	80	–	–	80	–	63	–
Mark Elliott	275	110	14	399	22	526	21
Ian Renton	160	38	15	213	13	228	12
Andrew Parker Bowles	35	–	–	35	–	32	–
Martin McGann (appointed 27 June 2006)	40	–	–	40	–	21	–
Roger Withers (resigned 8 May 2006)	–	–	–	–	–	22	–
	590	148	29	767	35	892	33

Directors' holdings of share options

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

	At 31 December 2007	At 31 December 2006	Exercise price	Date from which exercisable	Expiry date
Mark Elliott	1,000,000	1,000,000	40.75p	3 October 2008	2 October 2015
	1,392,405	1,392,405	39.50p	31 October 2009	30 October 2016
Ian Renton	250,000	250,000	105.00p	25 May 2004	24 May 2011
	746,835	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%.
	3 October 2005	1,000,000	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.
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	Exercisable if the mean closing mid-price of shares is at least 139.75p over a continuous period of three months.
		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.
		250,000	

Adjusted EPS in relation to these options refers to the normalised earnings per share of the Company, which is defined as basic EPS adjusted for certain one-off events.

Directors' holdings of LTIP share awards

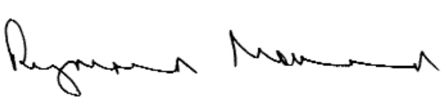
The Directors' holdings of shares subject to award through the LTIP are as follows:

	At 31 December 2007	At 31 December 2006	Vesting date
Mark Elliott	**389,242**	–	11 June 2010
Ian Renton	**226,468**	–	11 June 2010

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%.
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%.

Adjusted EPS in relation to these options refers to the normalised earnings per share of the Company, which is defined as basic EPS adjusted for certain one-off events.



On behalf of the Board
Raymond Mould
Chairman, Remuneration Committee
5 March 2008

Consolidated Income Statement

for the year ended 31 December 2007

	Note	Trading £'000	Separately disclosed items £'000	2007 Total £'000	2006 Total £'000
Revenue	5	57,920	–	57,920	45,259
Cost of sales		(42,024)	–	(42,024)	(30,033)
Gross profit		15,896	–	15,896	15,226
Other operating income		1,352	–	1,352	133
Administrative costs excluding impairment losses		(11,351)	–	(11,351)	(9,031)
Impairment losses	15	–	(1,050)	(1,050)	–
Profit from operations	6	5,897	(1,050)	4,847	6,328
Non-operating income and expense	7	–	1,370	1,370	–
Share of post-tax results of joint venture	19	(215)	–	(215)	(812)
Reversal of provision against investment in associate		–	–	–	100
Profit before interest and taxation		5,682	320	6,002	5,616
Finance expense	11	(2,053)	–	(2,053)	(848)
Finance income	11	1,895	–	1,895	1,049
Net finance (expense)/income	11	(158)	–	(158)	201
Profit before taxation		5,524	320	5,844	5,817
Income tax expense	12	–	–	–	–
Profit for the year		5,524	320	5,844	5,817
Attributable to:					
– Equity shareholders of the parent company	13	5,615	320	5,935	5,850
– Minority interest		(91)	–	(91)	(33)
Profit for the year		5,524	320	5,844	5,817

	Note	Pence	Pence
Earnings per share:	13		
Basic earnings per share		1.63	1.61
Diluted earnings per share		1.63	1.60

Consolidated Statement of Changes in Shareholders' Equity

for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Profit for the period		5,844	5,817
Share-based payment expense	33	153	34
Exercise of employee share options		–	287
Minority interest equity contribution	30	2,000	-
Dividends paid	14	(1,858)	(1,639)
		6,139	4,499
Total equity at the beginning of the period		64,272	59,773
Total equity at the end of the period		70,411	64,272
Attributable to:			
– Equity shareholders of the parent company		68,535	64,305
– Minority interest	30	1,876	(33)
		70,411	64,272

The notes on pages 35 to 59 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2007

	Note	2007 £'000	2006 £'000
Non-current assets			
Property, plant and equipment	15	**108,283**	86,054
Intangible assets	16	**5,596**	5,596
Investment in joint venture – Share of gross assets		**2,624**	1,770
– Share of gross liabilities		**(6,437)**	(5,368)
	19	**(3,813)**	(3,598)
Goodwill in respect of joint venture	19	**1,580**	1,580
Loans to joint venture	19	**4,979**	3,976
		2,746	1,958
Investment in associate	19	**–**	100
Total non-current assets		**116,625**	93,708
Current assets			
Inventories	20	**415**	17
Trade and other receivables	21	**6,191**	6,454
Other financial assets	22	**–**	58
Cash and cash equivalents	24	**3,735**	50
Total current assets		**10,341**	6,579
Total assets		**126,966**	100,287
Current liabilities			
Bank overdraft	24	**–**	(2,920)
Trade and other payables	23	**(6,475)**	(7,187)
Loans and borrowings	26	**(2,796)**	(135)
Accruals and deferred income	25	**(6,585)**	(4,477)
Total current liabilities		**(15,856)**	(14,719)
Non-current liabilities			
Loans and borrowings	26	**(37,145)**	(18,641)
Accruals and deferred income	25	**(3,554)**	(2,655)
Total non-current liabilities		**(40,699)**	(21,296)
Total liabilities		**(56,555)**	(36,015)
Total net assets		**70,411**	64,272
Equity			
Share capital	29	**18,210**	18,210
Share premium	30	**223**	223
Merger reserve	30	**5,417**	5,417
Retained earnings	30	**44,685**	40,455
Equity attributable to shareholders of the parent company		**68,535**	64,305
Minority interest	30	**1,876**	(33)
Total equity		**70,411**	64,272

The notes on pages 35 to 59 form part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 5 March 2008 and signed on its behalf by:

Mark Elliott
Chief Executive

Raymond Mould
Chairman

Consolidated Cash Flow Statement

for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Cash flows from operating activities			
Profit for the year		5,844	5,817
Adjustment for:			
Depreciation	15	2,616	2,051
Insurance surplus in respect of Southwell flood damaged assets	7	(1,370)	–
Impairment provision	15	1,050	–
Share-based payment expense	33	153	34
Net finance expense/(income)	11	158	(201)
Share of loss of joint venture	19	215	812
Reversal of provision against investment in associate		–	(100)
Profit on sale of property, plant and equipment		(4)	(14)
Grant amortisation		(53)	(53)
Cash flows from operating activities before changes in working capital and provisions		8,609	8,346
Decrease/(increase) in trade and other receivables		263	(1,165)
(Increase)/decrease in inventories		(398)	2
Decrease in trade and other payables		(125)	(1,463)
Net cash from operating activities		8,349	5,720
Cash flows from investing activities			
Purchases of property, plant and equipment		(27,250)	(14,505)
Proceeds from sale of property, plant and equipment		66	144
Insurance proceeds in respect of flood damaged assets	7	4,586	–
Sale of investment in Trackplay LLC	19	100	–
Loans to joint venture	19	(1,003)	(692)
Interest received	11	962	353
Net cash used in investing activities		(22,539)	(14,700)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		–	287
Minority interest equity contribution	30	2,000	–
Proceeds from bank and other borrowings		21,687	11,812
Capital grants received		882	–
Repayment of loans		(143)	(302)
Repayment of finance lease liabilities		(2)	(2)
Interest paid	11	(1,771)	(848)
Dividends paid	14	(1,858)	(1,639)
Net cash from financing activities		20,795	9,308
Increase in cash and cash equivalents	24	6,605	328
Net cash and cash equivalents at beginning of year	24	(2,870)	(3,198)
Net cash and cash equivalents at end of year	24	3,735	(2,870)

The notes on pages 35 to 59 form part of these financial statements.

Notes Forming Part of the Financial Statements

for the year ended 31 December 2007

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 2007 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 60 to 65.

The financial statements were approved by the Board of Directors on 5 March 2008.

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 2007. 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 15).

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

- Note 17 – provisions for impairment;
- Note 33 – measurement of share-based payment; and
- Note 27 – valuation of financial instruments.

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 Horserace Betting Levy Board ('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 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. Income from the new media rights agreement is credited to the income statement in the period in which it is earned.

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2007

3 Accounting policies continued

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.

Horserace Betting Levy Board revenue

The HBLB provides revenue grants 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'. Such deemed capital credit grants may be claimed by racecourses against expenditure on HBLB approved capital projects and as a result is not assessable to tax. It is the Group's policy that, as they are derived from and are dependent upon trading activities, such grants 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.

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.

3 Accounting policies continued

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.

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.

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2007

3 Accounting policies continued

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.

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	Evenly over the length of lease
All-weather tracks	Surface 5% to 10% per annum Base 2.5% to 3.3% per annum
Plant and machinery	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. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying value may not be recoverable.

3 Accounting policies continued

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

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

During the year ended 31 December 2007, the International Accounting Standards Board and the International Financial Reporting Interpretations Committee have issued the following standards and interpretations 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
International Financial Reporting Interpretations Committee (IFRIC)	**Effective date**
IFRIC 11 'IFRS 2 Group and Treasury Share Transactions'	1 January 2008

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of application.

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.

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2007

5 Revenue

	2007 £'000	2006 £'000
Sale of services	**57,920**	45,259

The Group only has one segment: racecourse operations. Within this segment, turnover is analysed as follows:

	2007 £'000	2006 £'000
HBLB	**19,404**	19,130
BAGS (media rights income in relation to licenced betting offices)	**9,883**	8,799
Other racecourse-related revenue*	**28,633**	17,330
	57,920	45,259

* Includes the impact of additional gross catering revenue in 2007 of £7,400,000 (2006: £nil).

6 Profit from operations

	2007 £'000	2006 £'000
This has been arrived at after charging/(crediting):		
Prize money	**14,653**	14,597
Staff costs (see Note 8)	**9,605**	5,955
Depreciation of property, plant and equipment	**2,616**	2,051
Auditors' remuneration:		
– Audit fees for these financial statements	**95**	125
– Interim review	**15**	6
– Services relating to taxation	**–**	21
– Other services	**–**	8
Profit on disposal of fixed assets	**(4)**	(14)
Amortisation of Government grants	**(53)**	(53)
Impairment losses in respect of Royal Windsor Racecourse (see Note 15)	**1,050**	–
Business interruption insurance in respect of Southwell Racecourse (see Note 7)	**(1,352)**	–

7 Southwell flood insurance claim

The severe weather which occurred in June and July 2007 resulted in the flooding of Southwell Racecourse. The Racecourse remained closed until December 2007.

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

	Cash proceeds £'000	Assets written off £'000	Other flood-related costs £'000	Deferral £'000	Income statement £'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**

8 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:

	2007 Number	2006 Number
Management and administration	**152**	87
Customer services	**267**	133
	419	220

	2007 £'000	2006 £'000
Staff costs (including Directors)		
Wages and salaries	**8,459**	5,273
Contributions to defined contribution pension plans	**154**	117
Share-based payment expense (see Note 33)	**153**	34
Employer's national insurance contribution and similar taxes	**839**	531
	9,605	5,955

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 2007 was £2,235,000 (2006: £1,498,000).

Staff numbers and costs have increased as a result of both bringing the catering business in-house and the re-opening of Doncaster Racecourse.

9 Directors' and key management remuneration

	2007 £'000	2006 £'000
Directors' remuneration		
Directors' emoluments	**767**	892
Contributions to defined contribution pension plans	**35**	33
Share-based payment expense (see Note 33)	**90**	28
	892	953

There were two 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 30 and 31 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 8 and 9.

	2007 £'000	2006 £'000
Key management remuneration (including Directors)		
Wages and salaries	**1,545**	1,525
Contributions to defined contribution pension plans	**77**	60
Share-based payment expense (see Note 33)	**141**	32
	1,763	1,617

There are eight employees (excluding Directors) defined as being key management for 2007 (2006: six).

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2007

10 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	
	2007 £'000	2006* £'000	**2007 £'000**	2006* £'000	**2007 £'000**	2006 £'000
Revenue	**57,920**	45,259	**–**	–	**57,920**	45,259
Profit from						
Operations	**7,006**	8,701	**(2,461)**	(2,506)	**4,545**	6,195
Other operating income	**1,352**	–	**–**	133	**1,352**	133
Profit from operations excluding impairment losses	**8,358**	8,701	**(2,461)**	(2,373)	**5,897**	6,328
Impairment losses	**(1,050)**	–	**–**	–	**(1,050)**	–
Profit from operations	**7,308**	8,701	**(2,461)**	(2,373)	**4,847**	6,328
Share of joint venture result	**–**	–	**(215)**	(812)	**(215)**	(812)

* The allocation in respect of 2006 has been changed for consistent presentation.

11 Finance income and expense

	2007 £'000	2006 £'000
Finance income		
Bank interest receivable	**639**	136
Other interest receivable (Note 34)	**323**	217
Gain on present value of interest-free loans on initial recognition	**933**	638
Gain on derivatives used to manage fair value interest rate risk	**–**	58
	1,895	1,049
Finance expense		
Bank interest payable	**(1,740)**	(831)
Finance lease interest	**(31)**	(17)
Amortisation of previous gain on present value of interest-free loans	**(223)**	–
Loss on derivatives used to manage fair value interest rate risk	**(59)**	–
	(2,053)	(848)
Net finance (expense)/income	**(158)**	201

12 Income tax expense

	2007 £'000	2006 £'000
UK corporation tax		
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:

	2007 £'000	2006 £'000
Tax reconciliation		
Factors affecting tax for the period:		
– Profit on ordinary activities before taxation	**5,844**	5,817
Profit on ordinary activities at standard rate of corporation tax in the UK of 30% (2006: 30%)	**1,753**	1,745
Effects of		
Expenses not deductible for tax purposes	**657**	216
Tax exempt income	**(3,619)**	(3,199)
Change in unrecognised temporary differences	**494**	345
Adjustment for joint ventures and associates	**64**	244
Current year losses for which no deferred tax asset is recognised	**651**	649
Total tax charge for the year	**–**	–

At the year end, corporation tax losses representing trading and non-trading losses of £58,538,000 (2006: £57,148,000) 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 2007

13 Earnings per share

	2007 £'000	2006 £'000
Earnings		
Profit for the year attributable to equity shareholders of the parent company	**5,935**	5,850

	2007 Number million	2006 Number million
Weighted average number of shares		
Weighted average number of shares used in the calculation of basic EPS	**364.2**	364.1
Dilutive potential ordinary share		
Employee share options	**0.3**	1.0
Weighted average number of shares used in the calculation of diluted EPS	**364.5**	365.1

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 2007 was 5.52 million (2006: 7.25 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.

14 Dividends

	2007 £'000	2006 £'000
Final dividend of 0.26p (2006: 0.20p) per ordinary share proposed and paid during the year relating to the previous year's results	**947**	728
Interim dividend of 0.25p (2006: 0.25p) per ordinary share paid during the year relating to the current year's results	**911**	911
Dividends paid in the year	**1,858**	1,639

The Directors have proposed a final dividend of 0.30p (2006: 0.26p) per share totalling £1,093,000 (2006: £947,000). In accordance with IAS 10, this dividend has not been accrued at 31 December 2007.

15 Property, plant and equipment

	Assets under construction £'000	Long leasehold land and buildings £'000	Freehold land, buildings and all-weather tracks £'000	Plant and machinery £'000	Fixtures, fittings and vehicles £'000	Total £'000
Cost						
At 1 January 2006	3,698	1,321	63,277	8,784	6,024	83,104
Additions	12,723	1,237	1,489	1,119	1,052	17,620
Disposals	–	–	(27)	(128)	(92)	(247)
At 31 December 2006	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
Reclassification	(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**
Depreciation and impairment losses						
At 1 January 2006	–	(167)	(4,416)	(4,382)	(3,524)	(12,489)
Charged in the year	–	(53)	(716)	(657)	(625)	(2,051)
Disposals	–	–	15	44	58	117
At 31 December 2006	–	(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)**
Net book value						
At 31 December 2005	3,698	1,154	58,861	4,402	2,500	70,615
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**

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, amongst other things, fees for building architects, engineers, surveyors, cost consultants, planning consultants, legal fees and specialist reports.

Additions include £726,000 (2006: £104,000) 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% or LIBOR plus 1%, as applicable.

Disposals include £3,216,000 of property, plant and equipment written off in respect of the flood damage at Southwell Racecourse (see Note 7).

In 2007, the Board reviewed the plans for the proposed development of Royal Windsor Racecourse. Due to the passage of time and potential variations to the nature and scale of the possible development, the Board has written 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 less cost to sell.

Property, plant and equipment includes non-depreciable assets of £36,883,000 (2006: £53,964,000).

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2007

15 Property, plant and equipment continued

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

	2007 £'000	2006 £'000
Long leasehold land and buildings	**35,309**	2,338

At 31 December 2007, the gross original cost of all assets with a £nil net book value still in use was £1,519,000 (2006: £1,387,000).

16 Intangible assets

	Racecourse operations £'000
Goodwill	
At 31 December 2005, 31 December 2006 and 31 December 2007	**5,596**

In December 2005, Arena Leisure Plc and Doncaster Racecourse Management Company Ltd entered into various agreements with Doncaster Metropolitan Borough Council to redevelop Doncaster Racecourse, which, following the completion of the redevelopment, has lead to the grant of a 99-year lease to Doncaster Racecourse Management Company Ltd. The various legal and professional fees associated with the process leading to the signing of these agreements have been capitalised by Arena as an investment in Doncaster Racecourse Management Company Ltd and, on consolidation, are recognised as goodwill.

17 Goodwill and impairment

A review of the carrying value of goodwill arising from the acquisition of the Group's racecourses was undertaken at 31 December 2007. The Board has based its review on the discounted value of the post-tax profit from each individual racecourse over the next five years. For the purpose of this impairment review only, the post-tax profit assumes no growth in earnings above the actual achieved in 2007, no changes to the number of race meetings or attendance levels and excludes any potential enhancement of earnings as a result of any strategic developments at the tracks. A discount rate and terminal value based on an estimated weighted average cost of capital of 7.1% have been used to arrive at net present values. The resultant net present values 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.

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 (1991) 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.

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	47.5%	Joint venture	Great Britain	Racing broadcaster

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

	Associate		Joint venture	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Cost				
At 1 January	**722**	722	**1,580**	1,580
Additions	**–**	–	**–**	–
Disposals	**(722)**	–	**–**	–
At 31 December	**–**	722	**1,580**	1,580
Provisions				
At 1 January	**(215)**	(315)	**–**	–
Provisions reversed	**–**	100	**–**	–
Disposals	**215**	–	**–**	–
At 31 December	**–**	(215)	**–**	–
Share of loss				
At 1 January	**(407)**	(407)	**(3,598)**	(2,786)
Loss for the year	**–**	–	**(215)**	(812)
Disposals	**407**	–	**–**	–
At 31 December	**–**	(407)	**(3,813)**	(3,598)
Net book value at 31 December	**–**	100	**(2,233)**	(2,018)

In 2005, the Group wrote off its investment in Trackplay LLC and distanced itself from that company's management. Consequently, in respect of this investment, no profit or loss was recognised in 2006 or 2007 and no summary financial information is included for 2006 in the table below.

In December 2006, an agreement was reached for the sale of the Company's 30% share of Trackplay LLC which valued the investment at £100,000. This valuation was adopted by the Board at 31 December 2006 and the sale was completed for this amount in March 2007. There was no gain or loss arising.

The summary financial information for the At The Races joint venture, not adjusted for the 47.5% ownership held by the Group, is as follows:

	2007 £'000	2006 £'000
Non-current assets	**144**	264
Current assets	**5,380**	3,463
Current liabilities	**(4,238)**	(3,460)
Non-current liabilities	**(9,313)**	(7,836)
Net liabilities	**(8,027)**	(7,569)
Income	**14,469**	13,365
Expenses	**(14,921)**	(11,656)
Loss after tax	**(452)**	(1,709)

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2007

19 Joint ventures and associates continued

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 £4,979,000 has been provided by way of loans at 31 December 2007 (2006: £3,976,000).

A review of the carrying value of the Group's investment in At The Races was undertaken at 31 December 2007. The Board has based its review on the discounted value of the Group's share of the operating cash flow from At The Races over the next five years. For the purpose of this impairment review only, the operating cash flow assumes earnings growth in line with the three-year plan adopted by the board of At The Races and thereafter at a rate of 3.0% per annum. A discount rate and terminal value based on an estimated weighted average cost of capital of 7.1% have been used to arrive at a net present value. The resultant net present value significantly exceeds the asset value of the investment. As a result of this review, the Board does not consider that any impairment provision is necessary.

20 Inventories

	2007 £'000	2006 £'000
Consumables	415	17

In 2007, consumables recognised as cost of sales amounted to £2,869,000 (2006: £108,000). In 2007, this included catering food and beverage sold.

21 Trade and other receivables

	2007 £'000	2006 £'000
Trade receivables	3,256	3,374
Other receivables	1,563	2,048
Prepayments and accrued income	1,372	1,032
	6,191	6,454

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.

22 Other financial assets

	2007 £'000	2006 £'000
Derivatives	–	58

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

23 Trade and other payables

	2007 £'000	2006 £'000
Trade payables	(5,168)	(6,382)
Sales and social security taxes	(508)	(273)
Other payables	(799)	(532)
	(6,475)	(7,187)

24 Cash and cash equivalents

	2007 £'000	2006 £'000
Cash and cash equivalents	**3,735**	50
Overdrafts	**–**	(2,920)
Net cash and cash equivalents	**3,735**	(2,870)
Increase in cash and cash equivalents	**6,605**	328
Cash and cash equivalents at beginning of year	**(2,870)**	(3,198)
Cash and cash equivalents at end of year	**3,735**	(2,870)

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

25 Accruals and deferred income

	2007 £'000	2006 £'000
Current liabilities		
Accruals	**(2,302)**	(1,325)
Deferred income	**(4,283)**	(3,152)
	(6,585)	(4,477)
Non-current liabilities		
Accruals	**–**	–
Deferred income	**(3,554)**	(2,655)
	(3,554)	(2,655)

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.

	2007 £'000	2006 £'000
Current liabilities		
Bank Loans	**(1,500)**	–
Finance lease liabilities	**14**	(19)
Other loans	**(1,310)**	(116)
	(2,796)	(135)
Non-current liabilities		
Bank loans	**(30,857)**	(14,750)
Finance lease liabilities	**(646)**	(282)
Other loans	**(5,642)**	(3,609)
	(37,145)	(18,641)

Other loans represent interest-free loans from the HBLB and, as required under IAS 39, are shown at present value with a net gain of £710,000 (2006: £638,000) taken to the income statement (see Note 11). The original value of other loans (current and non-current) total £8,300,000 (2006: £4,363,000).

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2007

26 Loans and borrowings continued

Terms and repayment schedule

Terms and conditions of outstanding loans were as follows:

	Nominal interest rate	Year of maturity	At 31 December 2007 Face value £'000	At 31 December 2007 Carrying amount £'000	At 31 December 2006 Face value £'000	At 31 December 2006 Carrying amount £'000
Secured bank term loan	Base + 1%	2013	**10,000**	**10,000**	4,259	4,259
Secured bank revolving credit loan	Base + 1%	2010	**10,000**	**10,000**	10,000	10,000
Secured bank term loan	LIBOR + 1%	2018	**12,357**	**12,357**	491	491
Bank overdrafts	Base + 1%	2008	**–**	**–**	2,920	2,920
Finance lease liabilities – Doncaster Racecourse	12.74%	2106	**333**	**333**	–	–
Finance lease liabilities – Worcester Racecourse	5.75%	2050	**299**	**299**	301	301
Total interest-bearing liabilities			**32,989**	**32,989**	17,971	17,971

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.

Borrowing facilities

The Group has undrawn committed borrowing facilities available at 31 December 2007 in which all conditions have been met:

	Floating rate 2007 £'000	Floating rate 2006 £'000
Expiry within one year	**6,500**	3,580
Expiry between one and two years	**–**	–
Expiry in more than two years	**643**	20,209
	7,143	23,789

Discussions in respect of extending the Group's borrowing facilities were ongoing at 31 December 2007 (see Note 36).

Finance lease liabilities

Finance lease payments are due as follows:

	Minimum lease payments 2007 £'000	Interest 2007 £'000	Present value 2007 £'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**
	5,825	**5,193**	**632**

	Minimum lease payments 2006 £'000	Interest 2006 £'000	Present value 2006 £'000
Not later than one year	19	17	2
Later than one year and not later than five years	76	69	7
Later than five years	727	435	292
	822	521	301

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 Risk Review Group 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.

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. As at 31 December 2007, the Group was exposed to interest rate risk on debt above this amount. 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:
- £5.0m Group secured overdraft facility. Interest is payable at the Bank of Scotland base rate 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 the Bank of Scotland base rate plus 1%;
- £10.0m Group secured term loan which can be drawn for working capital and general corporate use. Interest is payable at the Bank of Scotland base rate plus 1%; and
- £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%.

It is the Group's policy not to commence construction on development projects until funding has been secured (see Note 36).

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 raceday 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 47.5% joint venture company, At The Races, to which we sell our media rights. Thus it is the view of the Board that credit risk is minimal.

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2007

27 Financial instruments continued

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.

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 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. 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.

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.

There were no changes in the Group's approach to capital management during the year.

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:

	2007 £'000	2006 £'000
Interest rate hedging agreements: assets (Note 22)	**–**	58
Cash and cash equivalents (Note 24)	**3,735**	50
Trade and other receivables (Note 21)	**6,191**	6,454
	9,926	6,562

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

	2007 £'000	2006 £'000
HBLB	**323**	–
BAGS	**1,263**	2,374
ATR	**531**	487
Loans to ATR	**4,979**	3,976
Other receivables	**4,074**	3,593
	11,170	10,430

Impairment losses

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

	2007 £'000	2006 £'000
Not past due	**2,276**	2,952
Past due 0-30 days	**418**	201
Past due 31-60 days	**150**	122
More than 60 days	**412**	99
	3,256	3,374

In 2007, the allowance for impairment in respect of trade receivables was £39,000 (2006: £21,000). The allowance is made up of individually insignificant specific exposures.

27 Financial instruments continued

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments:

At 31 December 2007	Carrying amount £'000	Contractual cash flows £'000	Less than 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Secured bank loans	**32,357**	**32,357**	**1,500**	**1,500**	**15,100**	**14,257**
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**	**–**	**–**	**–**

At 31 December 2006	Carrying amount £'000	Contractual cash flows £'000	Less than 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Secured bank loans	14,750	14,750	–	1,500	2,759	10,491
Other loans	3,725	4,362	123	1,723	2,516	–
Trade and other payables	7,187	7,187	7,187	–	–	–
Accruals	1,325	1,325	1,325	–	–	–
Bank overdraft	2,920	2,920	2,920	–	–	–

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	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000	**2007 £'000**	2006 £'000
Sterling	**(32,357)**	(17,670)	**(15,221)**	(12,046)	**(47,578)**	(29,716)

	Floating rate assets		Interest-free assets		Total	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000	**2007 £'000**	2006 £'000
Sterling	**3,735**	–	**4,819**	5,422	**8,554**	5,422

The rate at which sterling floating liabilities are payable is 1% (2006: 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:

	Profit or loss	
Cash flow sensitivity floating rate instruments	100 bp increase £'000	100 bp decrease £'000
At 31 December 2006	(176)	176
At 31 December 2007	**(166)**	**255**

The above analysis assumes that all other variables remain constant.

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2007

27 Financial instruments continued

Fair values

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

	2007		2006	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Trade and other receivables	**6,191**	**6,191**	6,454	6,454
Cash and cash equivalents	**3,735**	**3,735**	50	50
Interest rate hedging agreements	**–**	**–**	58	58
Bank loans	**(32,357)**	**(32,357)**	(14,750)	(14,750)
Other loans	**(6,952)**	**(6,952)**	(3,725)	(3,725)
Trade and other payables	**(6,475)**	**(6,475)**	(7,187)	(7,187)
Accruals	**(2,302)**	**(2,302)**	(1,325)	(1,325)
Bank overdraft	**–**	**–**	(2,920)	(2,920)
	(38,160)	**(38,160)**	(23,345)	(23,345)

Other loans represent interest-free loans advanced from the HBLB. The balance outstanding on these loans was £8,300,000 (2006: £4,363,000).

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 Unrecognised deferred tax

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

	At 31 December 2005 £'000	Movement in the year £'000	At 31 December 2006 £'000
Deductible temporary differences	580	(138)	442
Tax losses	16,433	711	17,144
Unrecognised deferred tax assets	17,013	573	17,586

	At 31 December 2006 £'000	Movement in the year £'000	**At 31 December 2007 £'000**
Deductible temporary differences	442	325	**767**
Tax losses	17,144	(753)	**16,391**
Unrecognised deferred tax assets	17,586	(428)	**17,158**

The Group has not provided for the deferred tax asset on 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.

29 Share capital

	Authorised			
	2007		2006	
	Number	£'000	Number	£'000
Ordinary shares of 5p each	**429,353,724**	**21,468**	429,353,724	21,468

	Issued and fully paid			
	2007		2006	
	Number	£'000	Number	£'000
Ordinary shares of 5p each at beginning of the year	**364,202,007**	**18,210**	361,995,535	18,110
Exercise of employee share options	**–**	**–**	2,206,472	100
At end of year	**364,202,007**	**18,210**	364,202,007	18,210

The Group has also issued share options (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 premium account £'000	Merger reserve £'000	Retained earnings £'000	Minority interest £'000
At 1 January 2006	46	5,417	36,210	–
Exercise of employee share options	177	–	–	–
Profit for the year	–	–	5,850	(33)
Dividends paid	–	–	(1,639)	–
Share-based payment expense	–	–	34	–
At 31 December 2006	223	5,417	40,455	(33)
Profit 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**

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.

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2007

31 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2007 £'000	2006 £'000
Less than one year	24	–
Between one and five years	171	–
More than five years	4,579	–
	4,774	–

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.

32 Retirement benefits

The Group operates a defined contribution pension scheme. Pension costs for the defined contribution scheme in 2007 were £154,000 (2006: £117,000). There were £nil unpaid contributions outstanding at the year end (2006: £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 31 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.

	2007		2006	
	Weighted average exercise price	Number	Weighted average exercise price	Number
Outstanding at beginning of year	52.22	8,251,739	47.84	6,924,040
Granted during the year	–	–	39.50	4,034,171
Forfeited during the year	62.00	(2,390,068)	62.00	(500,000)
Exercised during the year	–	–	13.02	(2,206,472)
Outstanding at the end of the year	48.23p	5,861,671	52.22p	8,251,739

The exercise price of options outstanding at the end of the year ranged between 39.5p and 105p (2006: 39.5p and 105p) and their remaining weighted average contractual life was 7.8 years (2006: 7.4 years).

Of the total number of options outstanding at the end of the year, none (2006: none) had vested and were exercisable at the end of the year.

There were no options exercised in 2007. The weighted average share price, at the date of exercise, of options exercised during 2006 was 41.27p.

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

33 Share-based payment continued

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
Equity-settled	
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 (see page 31 of the Directors' Remuneration Report for the specific criteria attached to the 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. In any other circumstance, the awards will lapse immediately upon the employee leaving the Company's employment.

	2007		2006	
	Grant price	**Number**	Grant price	Number
Outstanding at beginning of year	**–**	**–**	–	–
Awarded during the year	**70.65**	**1,275,168**	–	–
Forfeited during the year	**70.65**	**(46,001)**	–	–
Vested during the year	**–**	**–**	–	–
Outstanding at the end of the year	**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.

The weighted average fair value of each share awarded during the year was 70.65p.

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

Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2007

33 Share-based payment continued

Share-based remuneration expense

The share-based remuneration expense (Note 8) comprises:

	2007 £'000	2006 £'000
Equity-settled schemes		
Share options granted in 2005	21	21
Share options granted in 2006	74	13
LTIP shares awarded in 2007	58	–
	153	34

34 Related party transactions

Details of Directors' and key management remuneration are given in the Remuneration Report on pages 28 to 31 and Note 9.

Mark Elliott and Ian Renton are Directors of the Group's joint venture, At The Races. Ian Renton became a Director of the British Horseracing Authority, racing's governing and regulatory body, in October 2006 as the nominee of the Racecourse Association ('RCA'), the trade association of the UK's racecourses. Prior to this, he served as a Director of the RCA and was succeeded as the Group's representative by Mark Elliott.

Transactions with these related parties are as follows:

		Transaction amount		Balance due to/(from) Arena	
Related party	Type of transaction	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Racecourse Association	Annual membership fee and related costs	280	171	(48)	(48)
	Sponsorship and raceday entry	2	3	1	–
British Horseracing Authority	Programme announcements and racing calendar adverts	637	509	(269)	(53)
	Hospitality	7	11	–	–
At The Races	Contribution to picture provision	1,161	1,497	324	359
	Interest receivable on loans	323	217	–	–
	Loans	680	692	4,979	3,976

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 2007 or 2006 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 2007, the Group remained committed to purchase property, plant and equipment totalling £2,794,000 (2006: £nil).

36 Post-balance sheet events

The Group has received credit committee approval from its relationship bank for a further £38,500,000 of banking facilities at the rate of 1.5% over LIBOR. This brings the Group's total facilities to £78,000,000 and enables the Board to progress the Doncaster and Lingfield Park hotel projects. The Board is confident that further funding will be made available for the Wolverhampton development once it is confirmed that the 'racino' project will proceed.

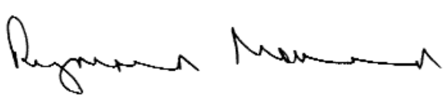
Company Balance Sheet – UK GAAP Financial Statements

at 31 December 2007

	Note	2007 £'000	2006 £'000
Fixed assets			
Tangible assets	3	**125**	46
Investments	4	**76,065**	54,683
		76,190	54,729
Current assets			
Debtors – Due within one year	7	**487**	3,103
– Due in more than one year	7	**122,525**	40,567
		123,012	43,670
Cash at bank and in hand		**3,374**	1,666
		126,386	45,336
Creditors: amounts falling due within one year	8	**(2,469)**	(3,686)
Net current assets		**123,917**	41,650
Total assets less current liabilities		**200,107**	96,379
Creditors: amounts falling due after one year	8	**(20,000)**	(14,259)
Net assets		**180,107**	82,120
Called up share capital	9	**18,210**	18,210
Share premium	10	**223**	223
Other reserve	10	**35**	-
Merger reserve	10	**5,417**	5,417
Profit and loss account	10	**156,222**	58,270
Shareholders' funds		**180,107**	82,120

The notes on pages 61 to 65 form part of these financial statements.

These financial statements were approved by the Board of Directors on 5 March 2008 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 2007

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 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.

Notes Forming Part of the UK GAAP Financial Statements continued

for the year ended 31 December 2007

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 £99,692,00 for the period (2006: £6,293,000). There were no intercompany dividends declared in 2007 (2006: £4,760,000).

3 Tangible fixed assets

	Fixtures, fittings and vehicles £'000
Cost	
At 1 January 2007	110
Additions	116
Disposals	(30)
At 31 December 2007	**196**
Depreciation	
At 1 January 2007	(64)
Charged in the year	(21)
Disposals	14
At 31 December 2007	**(71)**
Net book value at 31 December 2007	**125**
Net book value at 31 December 2006	46

4 Investments

	Associate £'000	Joint venture £'000	Subsidiaries £'000	Total £'000
Cost				
At 1 January 2007	722	2,231	52,352	55,305
Additions	–	–	73,800	73,800
Capital contribution	–	–	35	35
Disposals	(722)	–	(51,555)	(52,277)
At 31 December 2007	**–**	**2,231**	**74,632**	**76,863**
Provisions				
At 1 January 2007	(622)	–	–	(622)
Disposals	622	–	–	622
Impairment	–	–	(798)	(798)
At 31 December 2007	**–**	**–**	**(798)**	**(798)**
Net book value at 31 December 2007	**–**	**2,231**	**73,834**	**76,065**
Net book value at 31 December 2006	100	2,231	52,352	54,683

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

In December 2006, an agreement was reached for the sale of the Company's 30% share of Trackplay LLC which valued the investment at £100,000. The Board adopted this valuation at 31 December 2006 and the sale was completed in March 2007.

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 £91,964,000.

5 Staff numbers and costs

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

	2007	2006
Racing – Management and operations	1	18
Head Office – Management and administration	10	7
Total	11	25

	2007 £'000	2006 £'000
Staff costs (including Directors)		
Wages and salaries	1,295	1,800
Defined contribution pension cost	57	77
Employer's national insurance and similar taxes	164	214
Share-based payment expense	118	34
	1,634	2,125

Staff numbers and costs have fallen due to the transfer of racing-related staff to a subsidiary, Arena Leisure Racing Ltd.

6 Subsidiaries

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

7 Debtors

	2007 £'000	2006 £'000
Amounts falling due within one year		
Trade debtors	34	1,360
Other debtors	321	506
Prepayment and accrued income	132	1,237
	487	3,103
Amounts due after one year		
Amounts owed by subsidiary undertakings	117,546	36,591
Loans to joint venture	4,979	3,976
	122,525	40,567

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 2007

8 Creditors

	2007 £'000	2006 £'000
Amounts falling due within one year		
Trade creditors	**(780)**	(879)
Amounts due to subsidiary undertakings	**(813)**	(953)
Other taxation and social security	**(96)**	(5)
Other creditors	**(314)**	(9)
Accruals and deferred income	**(466)**	(1,840)
	(2,469)	(3,686)
Amounts due after one year		
Bank loan (secured)	**(20,000)**	(14,259)

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.

9 Called up share capital

	2007 £'000	2006 £'000
Authorised		
429,353,724 ordinary shares of 5p each (2006: 429,353,724)	**21,468**	21,468
Allotted, called up and fully paid		
364,202,007 ordinary shares of 5p each (2006: 364,202,007)	**18,210**	18,210

Total share options in issue at 31 December 2007 were as follows:

	Number of 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	31 October 2009 – 30 October 2016
	921,692		
(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	31 October 2009 – 30 October 2016
	4,939,979		
Total	**5,861,671**		

Total shares awarded through the LTIP as at 31 December 2007 were as follows:

	Number of ordinary shares	Grant price	Vesting date
Under the Long-Term Incentive Plan	**1,229,167**	70.65p	11 June 2010

Details of Directors' share options and LTIP share awards included above are disclosed in the Remuneration Report on pages 28 and 31.

10 Reserves

	Share premium account £'000	Other reserve £'000	Merger reserve £'000	Profit and loss account £'000
At 1 January 2007	223	–	5,417	58,270
Profit for the year	–	–	–	99,692
Dividends paid	–	–	–	(1,858)
Share-based payment expense	–	35	–	118
At 31 December 2007	**223**	**35**	**5,417**	**156,222**

The other reserve has arisen in respect of the share-based payment expense attributable to employees of subsidiaries. Descriptions of the other reserves are included in Note 30 to the IFRS financial statements.

11 Reconciliation of movement in shareholders' funds

	2006 £'000
Profit for the year	6,293
Dividends (Note 14 – IFRS financial statements)	(1,639)
Share-based payment expense	34
Issue of shares	287
Opening shareholders' funds	77,145
Closing shareholders' funds	82,120

	2007 £'000
Profit for the year	**99,692**
Dividends (Note 14 – IFRS financial statements)	**(1,858)**
Share-based payment expense	**118**
Capital contribution	**35**
Opening shareholders' funds	**82,120**
Closing shareholders' funds	**180,107**

12 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. Details are disclosed in Note 33 to the IFRS financial statements.

13 Capital commitments

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

14 Post-balance sheet events

Disclosure in respect of post-balance sheet events relating to financing arrangements is detailed in Note 36 to the IFRS financial statements.

15 Contingent assets and liabilities

There were no contingent assets or liabilities as at 31 December 2007.

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 2007 which comprise the primary statements such as 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 pages 23 to 24.

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.

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 2007 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 2007;
- 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

8 Salisbury Square
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5 March 2008

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