

# ARENA LEISURE PLC

Preliminary Results for the year ended 31 December 2008

Robust performance in a challenging market

**Arena Leisure Plc ('Arena' or 'the Group'), the UK's leading operator of horseracing fixtures which owns and operates seven racecourses in the UK comprising Doncaster, Royal Windsor, Folkestone, Lingfield Park, Southwell, Wolverhampton and Worcester, today announces its preliminary results for the year ended 31 December 2008.**

## Highlights

### Financial Performance

- Revenue increased by 12% to £64.8m (2007: £57.9m)
- Profit before interest and tax increased by 24% to £7.4m (2007: £6.0m), reflecting a £1.7m profit on the disposal of the freehold interests in the caravan park and marina at Royal Windsor Racecourse
- Adjusted earnings per share before non-cash items\* grew by 13% to 1.64p (2007: 1.45p)
- No final dividend is recommended following an interim dividend payment of 0.25p per share

\* Excludes £1.1m of non-cash movement in net finance expenses (2008: £0.4m loss, 2007: £0.7m gain) and £1.5m (2007: £0.1m) non-cash loss on valuation of interest rate derivatives

### Statutory Results

- Profit before tax of £4.0m (2007: £5.8m)
- Profit before tax adjusted for the gain on disposal of the freehold interests in the marina and caravan park at Royal Windsor Racecourse and for the loss on valuation movements in interest rate derivatives of £3.8m (2007: £5.9m)
- Earnings per share of 1.12p (2007: 1.63p)

### Operations

- Arena staged 363 fixtures over the period, representing over one quarter of all UK racing fixtures
- Total attendances at the Group's racecourses increased by 12% to 644,000 (2007: 573,000), significantly outperforming the UK racing industry as a whole which has seen aggregate attendances down by 2%
- The in-house catering operation successfully completed its first full year and is delivering clear operational benefits as well as improvements in customer service, food quality and profitability
- Doncaster Racecourse made a full year operating profit contribution following its re-opening in August 2007 after a 19 month redevelopment; attendances were 199,000 (2007: 102,000)
- Southwell Racecourse was fully operational from July 2008 following refurbishment after flood damage in 2007
- At The Races, in which Arena owns a 45.85% stake, continued to perform well and contributed a first post-tax profit of £0.3m (2007: £0.2m loss)
- Current trading is in line with expectations

## Development Projects

- Construction commenced in May 2008 on a 116-bedroom hotel and leisure development at Lingfield Park, which remains on schedule and on budget. A franchise agreement has been signed with Marriott International to operate this hotel upon completion, anticipated in Spring 2010
- There remains the potential at Wolverhampton Racecourse for the creation of a 'racino'. Arena remains hopeful of gaining one of the 'small' casino licenses in 2009
- Potential remains at Doncaster Racecourse for the development of a hotel and residential scheme
- The freehold interests in the marina and caravan park sites at Royal Windsor Racecourse were sold in December 2008 for £1.75m, resulting in a profit of £1.67m
- The Board continues to evaluate the potential redevelopment of surplus land at both Lingfield Park and Folkestone Racecourses and is actively developing plans for enhanced facilities at Royal Windsor Racecourse

**Mark Elliott**, Chief Executive of Arena Leisure Plc, commented:

***"Arena has delivered a creditable operational performance, growing total attendance across its portfolio of racecourses during the year and significantly outperforming the market in doing so. Whilst we have inevitably seen some impact from the wider current climate on our catering and hospitality revenues, there is no doubt that we are reaping significant benefits from the decision to bring the catering operation in-house."***

***"Arena has a portfolio of quality assets which are well invested and have further potential to be realised. Additionally, significant latent value resides in our landbank. We will continue to make good progress on our development projects throughout 2009 and beyond."***

**19 March 2009**

### Enquires:

#### **Arena Leisure Plc**

Mark Elliott, *Chief Executive*  
Tony Harris, *Finance Director*

**Today: 020 7457 2020**

Thereafter: 020 7632 2080

#### **College Hill**

Justine Warren  
Matthew Smallwood

**Tel: 020 7457 2020**

### **Forward-looking statements**

This report may contain certain statements about the future outlook for Arena. Although we believe our expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

**The preliminary results presentation will be available on the Group's website at:  
[www.arenaleisureplc.com](http://www.arenaleisureplc.com)**

## Chairman's Statement

Despite one of the toughest trading years in our recent history, attendances at Arena racecourses have continued to outperform racing industry trends. The fundamentals of Arena's business are sound and the Group remains an efficient and well run business. We have taken - and will continue to take - actions to realign the cost base to reflect current market conditions and we have made good progress on our real estate strategy, most notably with the commencement of construction on the Lingfield Park hotel and leisure development.

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

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

We again staged over one quarter of all UK racing fixtures (2008: 26%, 2007: 26%). Our total attendance increased by 12% to 644,000 (2007: 573,000) and our average attendances increased by 7% to 1,773 (2007: 1,652). Compared to the industry performance over the same period this is an excellent result, with the total attendance at all UK racecourses falling by 2% to 5.7 million (2007: 5.8 million) and average attendances down by 8% at 4,017 (2007: 4,376). At the racecourse operations level, operating profit before the profit on the sale of the freehold interests at Royal Windsor Racecourse fell by 7% to £7.7m (2007: £8.4m, profit before impairment losses), which was predominantly driven by the impact of lost revenues from the shortfall in private hospitality business during the year.

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

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

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

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

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

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

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

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

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

## Chief Executive's Statement and Review of Operations

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

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

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

### Review of operations

Arena's racecourse operations delivered an operating profit in 2008 of £7.7m (2007: £8.4m) before the gain on sale of the freehold interests in the marina and caravan park at Royal Windsor Racecourse. This reflects the impact of reduced private hospitality and catering spend. The total number of hospitality customers reduced by 14% to 53,700 (2007: 62,700). This reduction in our high value business particularly affected Royal Windsor and Lingfield Park Racecourses. The 2008 figure includes a £0.6m (2007: £1.4m) contribution from the business interruption insurance proceeds received in 2007 following the extensive flooding at Southwell Racecourse and reflects the fact that the Racecourse was not fully operational until July 2008. In 2007, the Group incurred start-up costs of £0.8m (2008: £nil) relating to the catering operation and the re-opening of Doncaster Racecourse.

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

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

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

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

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

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

Arena maintains a focus on operating costs which is a historic strength of the Group. As well as the control over purchasing and menu planning in the catering business, we have significantly reengineered the cost base at Doncaster Racecourse, in light of lower than anticipated attendances, and substantially reduced the operating costs at this Racecourse for 2009. Operational gearing is an important factor in the attendance-related aspect of Arena's business and has resulted in reduced 2008 profitability as consumers have trimmed spend per head or, in the case of private hospitality, chosen not to come in the same numbers. Management remain focused on the most efficient service and product delivery and the actions that we have taken early in this recession have positioned Arena well with regard to difficult trading conditions in 2009 and to enable the Group to capitalise on a recovery in the future.

The revenue generated by Arena's BAGS contract from media rights sold to licensed betting offices increased by 5% to £10.4m (2007: £9.9m), which was less than anticipated due to fewer races during the winter evening race programme in the first part of the year featuring eight horses or more. The Levy – which largely funds prize-money and is generated from UK bookmakers' domestic horseracing profits – has been settled at £116.0m for 2007/8 (2006/7: £99.0m), significantly above the expected

level, resulting in increased prize-money levels from July 2008. The amount available for the winter evening fixtures increased from £20,000 to £30,000, which has helped to increase the number of runners at these fixtures in the latter part of the year and avoided further impact on BAGS revenue.

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

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

In other 'racing industry' developments, the UK Government decided in October that the sale of the Tote was not appropriate in light of prevailing market conditions and that it would be retained in public ownership for the "medium-term", which is viewed as being at least three years. Arena continues to work closely with the Tote to maximise the revenues that are derived from the relationship. Racing Enterprises Limited ('REL'), the new commercial entity for UK racing, has begun a "branding review" of UK racing, with the results due in mid-2009. Arena looks forward to the results of this major review and to working with REL to improve and develop the public perceptions of UK racing in order to continue the commercial development of the sport. In the legal dispute between Turf TV and BAGS, the judgement delivered in 2008 largely favoured Turf TV. However, an appeal against this judgement is due to be heard in May 2009. In December, Mark Elliott was appointed Vice-Chairman of the Racecourse Association. Ian Renton continued as the member-nominated representative of the UK's racecourses on the board of the British Horseracing Authority.

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

At Doncaster Racecourse, the proposed development of a 120-bedroom hotel with 34 residential apartments on the upper floors, was progressed through to detailed planning and is a project capable of commencing construction at short notice. In the first half of the year, we undertook a review of the timing of the planned development in light of the current economic environment, as well as the cost and availability of suitable debt financing. The project has, accordingly, been delayed with the Board remaining confident that this is a commercially exciting opportunity that will recommence at such time as market conditions improve. When completed, the hotel will provide a highly complementary asset

to the racecourse operation, particularly as the grandstand facilities provide 3,400m<sup>2</sup> of exhibition space that is establishing itself as a major venue for trade shows and other events.

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

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

The sale of these freehold interests is an example of the Group seeking to realise value from any surplus or under-utilised assets within its extensive racecourse portfolio. We remain focused on the surplus land at both Lingfield Park and Folkestone Racecourses, with the latter being the most significant as, combined with a redevelopment of the Racecourse, there is potential for residential planning consent on up to 50 acres of surplus land. The local authority ('Shepway') is required to demonstrate capacity to deliver around 6,000 new homes by 2025 and we believe the proposals that we are working on will contribute significantly. Following consultation by Shepway during 2008, its 'Core Strategy – Preferred Options' paper is expected to be issued in May 2009. We will continue to consult with Shepway during this process as we refine our plans.

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

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

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

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

**CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2008**

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

		Pence	Pence
<b>Earnings per share</b>	9		
Basic earnings per share		<b>1.12</b>	1.63
Diluted earnings per share		<b>1.12</b>	1.63

**CONSOLIDATED STATEMENT OF CHANGES  
IN SHAREHOLDERS' EQUITY**

	<b>2008</b>	2007
	<b>£'000</b>	£'000
Profit for the period	<b>4,016</b>	5,844
Total recognised income and expense	<b>4,016</b>	5,844
Share-based payment expense	<b>220</b>	153
Minority interest equity contribution	12	-
Dividends paid	10	2,000
	<b>(2,003)</b>	(1,858)
	<b>2,233</b>	6,139
Total equity at the beginning of the period	<b>70,411</b>	64,272
<b>Total equity at the end of the period</b>	<b>72,644</b>	70,411
Attributable to:		
- Equity shareholders of the parent company	<b>70,835</b>	68,535
- Minority interest	12	1,876
	<b>72,644</b>	70,411

The prior year adjustments in respect of deferred tax (see Note 8) have no net effect on retained earnings or other components of equity.

**CONSOLIDATED BALANCE SHEET  
AT 31 DECEMBER 2008**

	Notes	2008 £'000	2007 £'000
<b>Non-current assets</b>			
Property, plant and equipment	11	119,734	108,283
Intangible assets		5,596	5,596
Investment in joint venture:			
Share of gross assets		2,699	2,624
Share of gross liabilities		(6,073)	(6,437)
		(3,374)	(3,813)
Goodwill in respect of joint venture		1,580	1,580
Loans to joint venture		4,965	4,979
		3,171	2,746
Investment in associate		-	-
<b>Total non-current assets</b>		<b>128,501</b>	116,625
<b>Current assets</b>			
Inventories		544	415
Trade and other receivables		5,415	6,191
Assets classified as held for sale		100	-
Cash and cash equivalents	13	179	3,735
<b>Total current assets</b>		<b>6,238</b>	10,341
<b>Total assets</b>		<b>134,739</b>	126,966
<b>Current liabilities</b>			
Bank overdraft	13	(1,003)	-
Trade and other payables		(7,850)	(6,475)
Loans and borrowings	13	(2,940)	(2,796)
Accruals and deferred income		(6,691)	(6,585)
<b>Total current liabilities</b>		<b>(18,484)</b>	(15,856)
<b>Non-current liabilities</b>			
Loans and borrowings	13	(40,448)	(37,145)
Accruals and deferred income		(3,163)	(3,554)
<b>Total non-current liabilities</b>		<b>(43,611)</b>	(40,699)
<b>Total liabilities</b>		<b>(62,095)</b>	(56,555)
<b>Total net assets</b>		<b>72,644</b>	70,411
<b>Equity</b>			
Share capital		18,210	18,210
Share premium	12	223	223
Merger reserve	12	5,417	5,417
Retained earnings	12	46,985	44,685
<b>Equity attributable to shareholders of the parent company</b>		<b>70,835</b>	68,535
Minority interest	12	1,809	1,876
<b>Total equity</b>		<b>72,644</b>	70,411

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Notes	2008 £'000	2007 £'000
<b>Cash flows from operating activities</b>			
Profit for the year		4,016	5,844
Adjustment for:			
Depreciation		3,370	2,616
Insurance surplus in respect of Southwell Racecourse flood damaged assets		-	(1,370)
Dilution gain		(129)	-
Impairment provision		-	1,050
Share-based payment expense		220	153
Net finance expense		3,428	158
Share of (gain)/loss of joint venture		(310)	215
Profit on sale of property, plant and equipment		(1,615)	(4)
Grant amortisation		(71)	(53)
Cash flows from operating activities before changes in working capital and provisions		8,909	8,609
Decrease in trade and other receivables		776	263
Increase in inventories		(129)	(398)
Decrease in trade and other payable		(1,003)	(125)
<b>Net cash from operating activities</b>		<b>8,553</b>	<b>8,349</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(13,905)	(27,250)
Proceeds from sale of property, plant and equipment		1,760	66
Insurance proceeds in respect of flood damaged assets		-	4,586
Sale of investment in associate		-	100
Decrease/(increase) in loans to joint venture		14	(1,003)
Interest received	7	1,091	962
<b>Net cash used in investing activities</b>		<b>(11,040)</b>	<b>(22,539)</b>
<b>Cash flows from financing activities</b>			
Minority interest equity contribution	12	-	2,000
Proceeds from bank and other borrowings		6,243	21,687
Capital grants received		-	882
Repayment of loans		(3,243)	(143)
Repayment of finance lease liabilities		14	(2)
Interest paid	7	(3,083)	(1,771)
Dividends paid	10	(2,003)	(1,858)
<b>Net cash from financing activities</b>		<b>(2,072)</b>	<b>20,795</b>
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(4,559)</b>	<b>6,605</b>
Net cash and cash equivalents at beginning of year		3,735	(2,870)
<b>Net cash and cash equivalents at end of year</b>	13	<b>(824)</b>	<b>3,735</b>

## **Notes to the accounts**

### **1. Reporting entity**

Arena Leisure Plc (the 'Company') is a company domiciled in the United Kingdom. The consolidated financial statements of the Company as at and for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interests in associates and jointly controlled entities.

### **2. Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS').

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2008 or 2007 but is derived from those accounts. Statutory accounts for 2007 have been delivered to the registrar of companies, and those for 2008 will be delivered in due course. The auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

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

The consolidated financial statements of the Group as at and for the year ended 31 December 2007 are available on the Company's website at: [www.arenaleisureplc.com](http://www.arenaleisureplc.com).

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

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

### **3. Estimates**

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

## Notes to the accounts *(continued)*

### 4. 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:

	<b>2008</b>	2007
	<b>£'000</b>	£'000
<b>Revenue</b>		
Racecourse operations	<b>64,825</b>	57,920
<b>Profit from</b>		
Racecourse operations	<b>6,988</b>	7,006
Other operating income (see Note 5)	<b>760</b>	1,352
Profit from Racecourse operations	<b>7,748</b>	8,358
Central costs	<b>(2,281)</b>	(2,461)
Profit from operations excluding profit on disposal of the freehold interests in the marina and caravan park at Royal Windsor Racecourse and impairment losses	<b>5,467</b>	5,897
Profit on disposal of the freehold interests in the marina and caravan park at Royal Windsor Racecourse (see Note 5)	<b>1,667</b>	-
Impairment losses – Royal Windsor Racecourse (see Note 11)	-	(1,050)
Profit from operations	<b>7,134</b>	4,847
Share of post-tax results of At The Races	<b>310</b>	(215)

### 5. Other operating income

Other operating income consists of £1,667,000 (2007: £nil) relating to the profit on disposal of the freehold interest in the marina and caravan park at Royal Windsor Racecourse, £631,000 (2007: £1,352,000) relating to the business interruption insurance in respect of Southwell Racecourse (see Note 6) and £129,000 (2007: £nil) in respect of a dilution gain relating to the change in Arena's holding in the ordinary shares of At The Races from 47.5% to 45.85% in July 2008.

### 6. Southwell Racecourse 2007 flood insurance claim

The severe flooding which occurred in the summer of 2007 resulted in the closure of Southwell Racecourse, with the Racecourse partially re-opening in December of that year. As a result of the ongoing work until the Racecourse became fully operational at the end of July 2008, an element of the business interruption insurance claim proceeds received in 2007 amounting to £631,000 was deferred and released to the income statement in 2008.

## Notes to the accounts (continued)

### 7. Finance income and expense

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

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

### 8. Taxation

There is no current year tax charge (2007: no tax charge) mainly due to the utilisation of Horserace Betting Levy Board capital credits which are not assessable to tax. At 31 December 2008, corporation tax losses representing trading and non-trading losses of £63,043,000 (2007: £58,538,000) were available for utilisation in future years subject to agreement with HM Revenue & Customs.

Following the reconsideration of the impact on the tax base of capital credits, the Directors have recognised a deferred tax liability on temporary differences of £12,909,000 (2007: £12,392,000 *restated*). In addition, the Directors have also recognised a deferred tax asset for losses of £12,909,000 (2007: £12,392,000 *restated*). There is no net impact of these changes on net assets at 31 December 2006, 2007 or 2008 or on profit and loss and earnings per share for the years ended 31 December 2007 or 2008.

## Notes to the accounts *(continued)*

### 9. Earnings per share

<b>Earnings</b>	<b>2008</b>	2007
	<b>£'000</b>	£'000
Profit for the year attributable to equity holders of the parent company	<b>4,083</b>	5,935
<b>Adjustments</b>		
Derivative liability held for risk management	<b>1,455</b>	59
Amortisation of previous gain on present value of interest-free loans	<b>433</b>	223
Gain on present value of interest-free loans on initial recognition	-	(933)
Adjusted profit for the year used in the calculation of adjusted EPS	<b>5,971</b>	5,284
<b>Weighted average number of shares</b>	<b>2008</b>	2007
	<b>No.'m</b>	No.'m
Weighted average number of shares used in the calculation of basic and adjusted EPS	<b>364.2</b>	364.2
Dilutive potential of ordinary shares:		
Employee share options	-	0.3
Weighted average number of shares used in the calculation of diluted EPS	<b>364.2</b>	364.5

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

### 10. Dividends

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

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

### 11. Property, plant and equipment

During the year ended 31 December 2008, the Group acquired assets with a cost of £15,066,000 (2007: £29,173,000).

The Board considered the carrying value of assets under construction at 31 December 2008 and concluded that there were no indications of impairment and subsequently no impairment loss has been recognised (2007: impairment loss of £1,050,000 recognised in respect of Royal Windsor Racecourse).

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

## Notes to the accounts *(continued)*

### 12. Reserves

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

In 2007, the Group received £2,000,000 from Doncaster Metropolitan Borough Council being the equity contribution in respect of its minority interest in Doncaster Management Company Limited.

### 13. Statement of net debt

	2008 £'000	2007 £'000
Cash and cash equivalents	179	3,735
Bank overdrafts	(1,003)	-
Net cash and cash equivalents	(824)	3,735
Bank loans	(37,100)	(32,357)
HBLB loans (present value of interest-free loans)	(5,642)	(6,952)
Finance lease liabilities – Worcester and Doncaster Racecourses	(646)	(632)
Closing net debt	(44,212)	(36,206)

### 14. Restatement of parent company 2007 result for the year

In 2007, a £96,045,000 profit arising from the Group reorganisation was included within the Company-only profit for the year; however, this is not a realised profit and should have been shown as a movement in reserves. As a result, the comparative figure has been restated in the 2008 parent company financial statements.