

ARENA LEISURE PLC

Final results for the year ended 31 December 2010

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, Lingfield Park, Southwell, Wolverhampton, Folkestone and Worcester, today announces audited final results for the year ended 31 December 2010.

Highlights

Financial performance:

- Revenue of £64.0m (2009: £65.2m)
- Adjusted profit before interest and tax* increased by 10.4% to £5.4m (2009: £4.9m)
- Profit before tax was £3.6m (2009: £4.1m)
- Earnings per share were 1.02p (2009: 1.16p)
- Proposed final dividend maintained at 0.38p per share (2009: 0.38p)
- Net borrowings reduced by £6.5m to £39.8m (2009: £46.3m)

* Adjusted to exclude gains on the disposal of assets (2010: Enil, 2009: £0.4m)

Operational:

- 352 fixtures staged in the year representing 25% of UK racing fixtures (2009: 370 fixtures, 26%)
- Total attendance at the Group's racecourses was 634,000 (2009: 639,000), marginally down reflecting the reduction in number of fixtures staged
- Average attendance increased by 4.2% to 1,800 ahead of the market average growth of 3.4% and hospitality attendance increased by 17.1% to 45,200 (2009: 38,600)
- At The Races delivered a 163% increase in post-tax profit contribution of £1.4m (2009: £0.5m)
- Lingfield Park Marriott Hotel and Country Club opened in May 2010 after a £30m development programme

Recent developments and future growth:

- 353 fixtures secured for 2011 (2010: 352 staged)
- The Government's Levy determination for 2011/12 has been set at £73.3m to £80.8m, securing funding for 2011 and setting a platform for future stability
- 2012 will bring the start of the new five-year SIS media rights agreement, with an estimated total value of £106m and an uplift in annual value of £10m
- Successful tender to The London Organising Committee of The Olympic Games and Paralympic Games to provide catering services at the Eton Dorney and Greenwich Park venues in 2012, with an estimated net profit contribution of £0.5m to £1.0m
- Masterplan proposal for the redevelopment of Folkestone Racecourse submitted to the local authority with a mixed-use scheme incorporating 800 residential units
- Lingfield Park Marriott Hotel and Country Club has made a positive start to 2011

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

“Arena has produced another solid performance this year. The Group’s increasing diversity of income streams has helped reduce the impact of the on-going difficult trading conditions facing the wider racing industry. Arena continues to demonstrate operational excellence in its core business with industry-leading growth in average attendances at our racecourses.

“Whilst we expect that 2011 is likely to be another challenging year, current trading is in line with expectations and Arena continues to maximise the various development opportunities inherent within its portfolio. There is substantial upside to come from the maturing of the Lingfield Park Marriott Hotel revenues and the transformational media rights agreement with SIS which will deliver significant income uplift over the five years from 2012.

“Arena remains extremely well positioned for growth into 2012 and beyond.”

8 March 2011

Enquiries:

Arena Leisure Plc

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

Today: 020 7457 2020

Thereafter: 020 7632 2080

College Hill

Matthew Smallwood
Jamie Ramsey

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 Arena’s website at:
www.arenaleisureplc.com**

Chairman's Statement

In my first year as Chairman, I am pleased to be able to report growth in the underlying performance of our racecourse operations. We have outperformed the market in growth in average attendances, opened a new hotel, made significant progress on our Folkestone Racecourse development plan, continued the success of our catering operation and At The Races ('ATR') has taken a major step forward in its profit contribution. From 2012, the new media rights agreement with Satellite Information Services Ltd ('SIS') will increase income from media rights by an estimated £10m per annum and remains the obvious focus of the Group's growth story. In addition, recent major capital investments, further operational improvements and an increased return from the distribution of international media rights through ATR will provide further sustainable growth. Following the year-end we announced our first major external catering contract as provider of catering services at both the Eton Dorney and Greenwich Park venues for the Olympic and Paralympic Games in 2012.

As a backdrop to Arena's performance and prospects, the horseracing industry has recently experienced a major reduction in the level of funding received from the Levy on bookmakers which, when coupled with conditions in the UK economy, has exerted considerable financial pressures on all of racing. The yield from the Levy is estimated to fall to £64.8m in 2010/11 as a result of the movement of internet and telephone betting 'offshore', the impact of overseas betting operators and betting exchanges. The Levy is fundamental to the support of horseracing in the UK and it is our belief that all parties should seek to maintain it in a modernised and restructured form. The recent determination by Government of the basis of the 2011/12 scheme to deliver a yield of £73.7m to £80.8m is encouraging in that it provides stability for funding at least at the current level. In the longer term, it will be important for the sustainability of the Levy for a future solution to encompass offshore operators and betting exchanges and their customers.

The Group's seven racecourses staged a total of 352 fixtures in the year to 31 December 2010 (2009: 370) with the average attendance increasing by an industry-leading 4.2% to 1,800 (2009: 1,727). Total attendance was 634,000 (2009: 639,000) including 60,000 people (2009: 53,000) attending the Ladbrokes St Leger festival at Doncaster Racecourse. Hospitality attendance in 2010 increased by 17.1% to 45,200 (2009: 38,600) which is encouraging. The UK racing industry reported total attendance across all racecourses of 5.8 million, up from 5.7 million in 2009, with average attendances up by 3.4% (2009: 0.0%).

For the full year, Arena's adjusted profit before interest and tax was £5.4m, an increase of 10.4% from £4.9m in 2009 (before a £0.4m gain on asset disposals). Arena's total revenue for 2010 was £64.0m, down £1.2m (2009: £65.2m) following a £3.8m reduction in funding from the Levy which predominantly impacted prize money in the year. Income from media rights provided into licensed betting offices ('LBOs') was consistent at £11.6m (2009: £11.6m), despite fewer fixtures being staged. Non-racing income has grown to 11.9% (2009: 8.7%) and more than half of the growth was generated by the Lingfield Park Marriott Hotel.

Profit before tax was £3.6m (2009: £4.1m, including a £0.4m gain on asset disposals). Within this, the net finance expense was £1.8m (2009: £1.2m), the increase of £0.6m being due predominantly to the funding costs of the Lingfield Park Marriott Hotel development no longer being capitalised as part of the cost of construction following its opening in May. Basic earnings per share were 1.02p (2009: 1.16p), down 12.1%, principally as a result of this increased finance cost.

The first customers of the newly constructed Lingfield Park Marriott Hotel and Country Club were welcomed in mid-May. The hotel is the centre-piece of the £30m redevelopment of Lingfield Park that creates the UK's first integrated hotel, golf, leisure and racing complex. We are delighted with the physical product, service levels and overall quality of this new addition to our portfolio and are excited by the prospects of this complementary asset which we expect to reach maturity through 2012 and into 2013. Pre-opening costs in the year were £0.5m (2009: £0.2m), in-line with our expectations.

In October, Arena submitted its masterplan proposal for the redevelopment of Folkestone Racecourse to Shepway District Council ('SDC') as part of SDC's process for drawing up its new Local Development Framework. The proposal is designed to safeguard the long-term future of Folkestone

Racecourse and entails a complete rebuild of the Racecourse and the introduction of approximately 800 residential units. SDC is likely to report in the middle of 2011, after which there will be an examination-in-public which is likely to conclude in Spring 2012.

Arena's 45.85% affiliate, ATR, commenced its joint venture, GBI Racing, on 1 March 2010 which provides a unified service for the international distribution of media rights from all UK and Irish racecourses. Cost savings from this combined operation, together with associated income growth and improved performance in ATR's website and TV channel businesses, resulted in Arena's share of ATR's earnings increasing by 163% to £1.4m (2009: £0.5m). The royalty payments made directly to the Group's racecourses by ATR under the terms of the media rights agreement increased by over 40% to £2.0m (2009: £1.4m).

The Board is pleased to announce that it is proposing a maintained final dividend for 2010 of 0.38p per share (2009: 0.38p per share). In line with our stated policy, no interim dividend was paid during the year (2009: none).

I was appointed to the Board as Chairman on 19 May. My predecessor, Raymond Mould had been Chairman of Arena for four years, during which time the Group initiated its exciting real estate strategy, established a successful in-house catering function and secured a transformational agreement with SIS for the supply of media rights post-2011. On behalf of the Board, I would like to thank Raymond for his outstanding contribution to the development of Arena. There were no other changes to the Board during the year.

Since my appointment, I have come to appreciate even more the exceptional dedication and professionalism of Arena's employees. In my opinion, they are second to none in their commitment to delivering an excellent product and service and I would like to convey the thanks of the Board to each of them.

Looking forward, 2011 will be another challenging year primarily as a result of the impact of the already announced reductions in Levy funding. As a result, our expectation is that Group profitability is unlikely to see a material uplift from 2010. I have highlighted the strengths of the Arena business and my belief is that the Group is extremely well placed to capitalise on future growth through media rights, operational performance and further estate development opportunities; 2012 will be an exciting year in this respect.

David Thorpe
Chairman
7 March 2011

Chief Executive's Statement

In 2010 we continued to make good progress in all areas of our strategy whilst maintaining our focus on racing operations and further expanding our other income sources.

Overview

Operating results for the year ended 31 December 2010 were encouraging in an environment that was heavily influenced by external factors including: the continued challenging economic conditions; the pressures on funding caused by the reduced Levy yield from bookmakers; and extreme weather conditions in both the early and latter parts of the year. Despite these challenges, we have been able to increase underlying adjusted profit before interest and tax* by 10.4% to £5.4m (2009: £4.9m). In so doing, we have increased the profit contribution from racecourse operations by 3.8% to £7.2m (2009: £7.0m)**. ATR has shown excellent growth and contributed £1.4m to Arena through our 45.85% equity share (2009: £0.5m).

We have been able to improve average attendances, hospitality revenues and catering profits in 2010. The race-day experience that we offer continues to evolve with our high-quality catering offering proving an ever more important element in differentiating our raceday customer experience. Themed racedays, be they the more traditional 'Ladies Day' or newer 'Racing and Music' nights, 'Family Fundays' or other specific events, have proved increasingly popular. These events not only provide a broader appeal for the racegoer but also allow us to target our marketing activities in a consumer-specific way. We have further plans in place for 2011 to build on this success with additional themed days and an evolution of our marketing approach, including online through our website and social media channels, with greater customer relationship management.

Arena's racing operations are recognised for their quality and for the professionalism and dedication of our racing staff. These strengths, combined with the flexibility of our three all-weather racecourses, enabled the Group to stage 352 fixtures in the year across our seven racecourses, including during periods of severe adverse weather. During December 2010, 48% of scheduled UK racing was lost to the weather conditions. However, Arena staged the expected number of fixtures with six abandonments being replaced with six extra fixtures at short notice. In total, we lost 18 fixtures in the year (2009: eight) and staged 14 extra fixtures at short notice (2009: four). The net impact of December weather conditions on Arena's profit was a £0.3m reduction as a result of a 14,000 fall in total attendance compared to the prior year and a number of cancelled non-racing meetings and events.

Our in-house catering operation is fully integrated into each racecourse, allowing us to utilise synergies across each site and align revenue generation. On a group-wide basis we are able to leverage expertise through shared resources and purchasing power through national supplier contracts. Quality of product and service, one of the key drivers of our in-house strategy, has continued to improve from an already high level.

On 10 February 2011, we announced that Arena had successfully tendered to The London Organising Committee of The Olympics Games and Paralympic Games ('LOCOG') and had been awarded the contract to provide catering services at both the Eton Dorney and Greenwich Park venues as part of the Olympic and Paralympic Games in 2012. Eton Dorney will be home to the sprint canoeing and rowing events and Greenwich Park will be home to the equestrian and modern pentathlon events. The contract contains elements of both fixed income and variable income that is dependent upon the numbers of attendees and spend per head. The Board currently estimates that Arena's 2012 net profit contribution from the contract will be in the range of £0.5m to £1.0m.

* Adjusted to exclude gains on the disposal of assets (2010: Nil, 2009: £0.4m)

** Before the impact of pre-opening costs of the Lingfield Park Marriott Hotel development of £0.5m (2009: £0.2m)

Media rights

Arena licenses the right to use the media content of racing from its racecourses through two main channels: to LBOs in the UK and Ireland; and internationally, online and via non-terrestrial TV through ATR. Revenue from these rights amounted to £13.6m (2009: £13.0m) and represents 21.3% of total revenue (2009: 19.9%).

The Group has secured 353 scheduled fixtures for 2011 and we have a reasonable expectation that we will be able to secure a similar fixture list for 2012 and beyond. Each of these fixtures will generate income from the LBO market which, from 1 January 2012, will arise pursuant to a new five-year contract with SIS. The Board has estimated that this new contract will have a total value of £106m over its term, which compares to the current five-year contract that will have delivered an estimated £55.6m of income to Arena between 2007 and 2011. Advanced payments of £12.5m were received by Arena on both 22 July 2009 and 22 July 2010. A third payment of £7.0m is due on 22 July 2011. The balance of the estimated revenue is due over the five-year term and is linked to the number of races run at Arena's racecourses.

Real estate development

Arena has been successful in achieving planning permissions and executing developments that both enhance racecourse assets and create value from surplus land. During 2010 the most recent of these developments was completed and the Lingfield Park Marriott Hotel and Country Club opened in May after a £30m investment.

The Group is currently pursuing development projects at four other racecourses:

- In October 2010, Arena submitted its master-plan proposal for the redevelopment of Folkestone Racecourse to Shepway District Council as part of SDC's process for drawing up its new Local Development Framework. The safeguards the long-term future of the Racecourse via a complete rebuild of the Racecourse, funded by the introduction of approximately 800 residential units. SDC is likely to report in the middle of 2011, after which there will be an examination-in-public which is likely to conclude in Spring 2012;
- Wolverhampton Racecourse has planning consent for a combined hotel and casino development that extends the existing hotel from 54 to 170 bedrooms. This project is dependent upon the grant of a small casino licence from Wolverhampton City Council. It is anticipated that tender applications will be invited for this licence in August 2011, with the final award expected in Summer 2012. We will participate in the tender and our belief is that the mixed-use scheme of casino, racecourse and an extension to the existing hotel will provide a compelling proposition;
- Doncaster Racecourse has planning consent for a 120-bedroom hotel and 34 residential units. This consent was recently extended until mid-2013. The Board remains confident of the commercial viability of this scheme and of its complementary nature to the existing facilities; and
- At Royal Windsor Racecourse the first part of a medium-term redevelopment programme commenced with the construction of a new entrance building housing offices and a food outlet. There will also be an expansion and refurbishment of the weighing room and jockeys' facilities. This first phase project is expected to cost £1.0m and complete in time for the 2011 racing season.

Industry funding

Reductions in funding from the Levy are having a major impact on racecourses and all participants in the racing industry. The yield from the Levy on bookmakers has fallen from £75.4m in 2009/10 to an estimated £64.8m in 2010/11, with a consequent impact on the funds distributed to racing. Arena suffered a reduction in funding for 2010 which had a £0.3m profit impact through reduced direct incentive payments and prize money contributions which were then supplemented by Arena. As previously announced, the impact on 2011 is more significant, with further reductions to fixture incentive payments of £0.8m and reductions in payments to support operational running costs of £0.7m, both of which will directly impact profit. The Levy Board has also taken the unusual step in making certain fixtures available with either no or partial funding for prize money. Arena has secured 48 partially funded fixtures and 36 fixtures with no funding for prize money which, whilst each of

these will still be profitable and are important in maintaining our fixture list, will be consequently less profitable than fully funded fixtures.

The racing industry and bookmakers failed to reach agreement on the form of the Levy scheme for 2011/12 and so it was referred to Government for 'determination'. On 16 February 2011, a statement from the Minister responsible set out the new terms. These are estimated to deliver a yield of £73.7m to £80.8m which would be above the level of the current 2011 budgeted Levy expenditure of £60.0m. Our expectation is that this uplift will predominantly benefit prize money, which will assist in improving race programmes, and/or Levy Board reserves and will therefore have minimal short-term impact on racecourse profitability. Over the medium term it will help to protect growth. Maintenance of the Levy in a revised form is considered important by the Arena Board and in the medium term we are seeking a solution that addresses offshore operators and betting exchanges and their customers which have so far not been addressed by the current 'determination'.

Operations

Some recovery in market conditions and a continued focus on the customer offering and marketing of lead promotions resulted in improvements in attendances. Average attendance, across all seven racecourses, increased by 4.2% to 1,800 (2009: 1,727) and total hospitality attendance increased by 17.1% to 45,200 (2009: 38,600). Total attendance was 634,000 which is slightly less than the 639,000 in 2009 as a result of fewer fixtures being held. A total of 352 fixtures were staged in 2010 which was 18 less than in 2009 when the closure of Great Leighs Racecourse resulted in additional fixtures being transferred to Arena courses at short notice. Arena has again staged over one-quarter of all UK racing fixtures (2010: 25%, 2009: 26%).

Of Arena's scheduled fixtures, 18 were abandoned during the year (2009: eight, 2008: seven) which represents an unusually high number and was a result of the severe weather conditions during both the early part of the year and the last five weeks of 2010, during which time eleven and seven race meetings were lost, respectively. Due to the capacity of our all-weather tracks and the dedication of our staff, we are able to stage extra fixtures at short notice and 14 extra fixtures were hosted in 2010 (2009: four), of which six were in December. Attendances throughout December at both the extra and the scheduled fixtures were 14,000 less than 2009 and the resulting adverse impact on profit was approximately £0.3m.

As has already been described, the Levy yield suffered a significant reduction in the year resulting in cuts to the distributions to racecourses. The overall contribution to Arena's racecourses reduced by £3.8m to £17.7m (2009: £21.5m), which resulted in a £0.3m negative impact on profitability (2009: £nil). Income from LBO-related media rights of £11.6m remained at the same level as the prior year (2009: £11.6m). Whilst the LBO contract benefits from an inflationary adjustment, the number of fixtures, and hence races staged, were less than in 2009 resulting in no net increase.

In May, the Lingfield Park Marriott Hotel and Country Club opened for business. The hotel operation is integrated with the Racecourse with a long-term business plan that is based on mixed leisure, corporate and events-based incomes. Initial trading through the summer months was in line with our expectations, with good golf and racing-related business. The last quarter proved more challenging due principally to market conditions. Pre-opening costs of the hotel operation were £0.5m (2009: £0.2m), as expected.

Arena's racecourse operation delivered an operating profit of £6.8m in the year (2009: £6.8m), after the impact of the hotel pre-opening costs. Excluding these hotel pre-opening costs, the racecourse contribution has increased by 3.8% to £7.2m (2009: £7.0m). Within this, the impact of reduced Levy funding and the December weather-affected trading was a cumulative negative £0.6m. Admissions-related incomes, royalties from international media rights and the first trading period of the new hotel together produced a net increase in profit of £0.8m.

At The Races ('ATR')

ATR is the UK and Ireland's most watched, dedicated horseracing channel and is available in 14 million homes. The channel reaches up to 2 million individuals each month with a regular daily audience of over 400,000 and a peak of 560,000 that was recorded in November 2010 during the Breeders' Cup coverage. Advertising revenues again performed well in 2010 thanks to the strong fundamentals behind ATR's audience profile.

The website 'attheraces.com' is the premier racing and betting website in the UK and Ireland. During 2010, it has achieved significant uplifts in its monthly usage, reaching a peak of 975,000 unique users in October (2009: 650,000).

In March 2010, ATR commenced its joint venture with Racecourse Media Group for the international distribution of all UK and Irish racing. This joint venture, GBI Racing, pools the respective rights of the two entities and provides a unified broadcast service for British and Irish racing in important pari-mutuel markets such as Italy, France, South Africa, Turkey and Australia, as well as further developing opportunities in newer markets such as Singapore, Malaysia and Hong Kong. In 2010 the joint venture delivered better than expected cost savings of £0.6m for ATR and increased revenues, thereby contributing to the overall excellent result of ATR in the year.

In the year to 31 December 2010 ATR generated an operating profit of £2.5m (2009: £1.4m) from revenue of £19.2m (2009: £16.1m) and a gross profit of £11.8m (2009: £10.2m). Operating profit was recorded after payments to racecourses of £4.2m (2009: £3.1m). Arena's share of post-tax profit was £1.4m (2009: £0.5m).

Capital expenditure

During the year £9.1m was invested on capital assets (2009: £19.2m). Of this, £7.6m (2009: £17.6m) was incurred on the Lingfield Park Marriott Hotel development bringing the total completed spend to £30.0m. Of the remaining £1.5m, £0.4m related to the commencement of the first phase of the development of Royal Windsor Racecourse featuring a £1.0m project that will improve racecourse facilities and provide a new entrance building including office and retail space. Capital additions include £0.8m (2009: £0.7m) of interest costs related to development projects during the planning and construction phases.

Having completed the Lingfield Park Marriott Hotel development and pending the commencement of construction on the other major development schemes, Arena will utilise operating cashflows in 2011 to substantially reduce net borrowings.

Outlook

Despite a challenging trading environment, Arena's core business moved forward successfully in 2010. Improved average racecourse attendances, together with good development of ATR's international media rights business, have helped to mitigate the continuing pressure on corporate spend and the impact of reduced industry funding.

Arena remains well placed with its increasingly diversified income streams, notably through: in-house catering, ATR media distribution and the Lingfield Park Marriott Hotel. However, due to the significant reduction in Levy yield we expect another challenging year and, on that basis, we do not anticipate material overall growth in 2011. Trading in the current year to date is in line with these expectations. With the significant successes achieved over the last few years, the prospects for 2012 are significantly brighter.

**Consolidated Statement of Comprehensive Income
for the year ended 31 December 2010**

	Note	2010 Trading £'000	Separately disclosed items £'000	2010 Total £'000	2009 Trading £'000	Separately disclosed items £'000	2009 Total £'000
Revenue	4	63,983	–	63,983	65,239	–	65,239
Cost of sales		(46,897)	–	(46,897)	(47,749)	–	(47,749)
Gross profit		17,086	–	17,086	17,490	–	17,490
Other operating income	5	–	–	–	–	418	418
Administrative costs		(13,024)	–	(13,024)	(13,101)	–	(13,101)
Profit from operations		4,062	–	4,062	4,389	418	4,807
Share of post-tax results of joint venture		1,352	–	1,352	515	–	515
Profit before interest and taxation		5,414	–	5,414	4,904	418	5,322
Finance expense	6	(2,058)	–	(2,058)	(1,659)	–	(1,659)
Finance income	6	141	126	267	456	2	458
Net finance expense	6	(1,917)	126	(1,791)	(1,203)	2	(1,201)
Profit before taxation		3,497	126	3,623	3,701	420	4,121
Income tax expense	7	–	–	–	–	–	–
Profit for the year and total comprehensive income		3,497	126	3,623	3,701	420	4,121

Attributable to:

– Equity shareholders of the parent company		3,605	126	3,731	3,793	420	4,213
– Non-controlling interest		(108)	–	(108)	(92)	–	(92)
		3,497	126	3,623	3,701	420	4,121

		Pence	Pence
Earnings per share:			
Basic earnings per share	8	1.02	1.16
Diluted earnings per share	8	1.02	1.16

**Consolidated Statement of Changes in Shareholders' Equity
for the year ended 31 December 2010**

	Note	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total equity before non-controlling interest £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2009 (As reported)*		18,210	223	5,417	46,985	70,835	1,809	72,644
Impact of change in accounting policy*		–	–	–	(10)	(10)	–	(10)
At 1 January 2009 (Restated)*		18,210	223	5,417	46,975	70,825	1,809	72,634
Profit for the year and total comprehensive income		–	–	–	4,213	4,213	(92)	4,121
Transactions with owners:								
– Share-based payment		–	–	–	(28)	(28)	–	(28)
– Dividends paid	9	–	–	–	–	–	–	–
Total transactions with owners		–	–	–	(28)	(28)	–	(28)
Impact of change in accounting policy*	2	–	–	–	2	2	–	2
At 31 December 2009 (Restated)*		18,210	223	5,417	51,162	75,012	1,717	76,729
Profit for the year and total comprehensive income		–	–	–	3,731	3,731	(108)	3,623
Transactions with owners:								
– Share-based payment		–	–	–	320	320	–	320
– Dividends paid	9	–	–	–	(1,384)	(1,384)	–	(1,384)
Total transactions with owners		–	–	–	(1,064)	(1,064)	–	(1,064)
At 31 December 2010		18,210	223	5,417	53,829	77,679	1,609	79,288

* - Relates to a change in the accounting policy for leased assets. See Note 2 for further information.

**Consolidated Balance Sheet
at 31 December 2010**

	Note	2010 £'000	2009 Restated* £'000
Non-current assets			
Property, plant and equipment	10	140,685	135,646
Intangible assets		6,072	6,035
Investment in joint venture			
– Share of gross assets		4,028	3,307
– Share of gross liabilities		(5,535)	(6,166)
		(1,507)	(2,859)
Goodwill in respect of joint venture		1,580	1,580
Loans to joint venture		4,308	4,754
		4,381	3,475
Total non-current assets		151,138	145,156
Current assets			
Inventories		471	422
Trade and other receivables		13,238	4,848
Cash and cash equivalents	12	3,099	351
Total current assets		16,808	5,621
Total assets		167,946	150,777
Current liabilities			
Bank overdraft	12	–	(1,874)
Trade and other payables		(5,821)	(6,750)
Loans and borrowings	12	(11,242)	(12,853)
Accruals and deferred income	11	(4,618)	(4,751)
Total current liabilities		(21,681)	(26,228)
Non-current liabilities			
Loans and borrowings	12	(31,669)	(31,924)
Accruals and deferred income	11	(35,308)	(15,896)
Total non-current liabilities		(66,977)	(47,820)
Total liabilities		(88,658)	(74,048)
Total net assets		79,288	76,729
Equity			
Share capital		18,210	18,210
Share premium		223	223
Merger reserve		5,417	5,417
Retained earnings		53,829	51,162
Equity attributable to shareholders of the parent company		77,679	75,012
Non-controlling interest		1,609	1,717
Total equity		79,288	76,729

* - Relates to a change in the accounting policy for leased assets. See Note 2 for further information.

**Consolidated Cash Flow Statement
for the year ended 31 December 2010**

	Note	2010 £'000	2009 £'000
Cash flows from operating activities			
Profit for the year		3,623	4,121
Adjustments for:			
Depreciation		3,786	3,479
Share-based payment expense/(credit)		320	(28)
Net finance expense	6	1,791	1,201
Share of profit of joint venture		(1,352)	(515)
Profit on sale of property, plant and equipment		(31)	(420)
Grant amortisation		(72)	(74)
Cash flows from operating activities before changes in working capital and provisions		8,065	7,764
(Increase)/decrease in trade and other receivables		(8,390)	567
(Increase)/decrease in inventories		(49)	122
Increase in trade and other payables		18,857	11,227
Net cash from operating activities		18,483	19,680
Cash flows from investing activities			
Purchases of property, plant and equipment		(8,554)	(20,385)
Proceeds from sale of property, plant and equipment		295	625
Additions to intangibles		(37)	(27)
Decrease in loans to joint venture		515	300
Interest received		72	367
Net cash used in investing activities		(7,709)	(19,120)
Cash flows from financing activities			
Proceeds from bank and other borrowings		38,987	3,900
Capital grants received		–	98
Repayment of loans		(41,120)	(3,237)
Repayment of finance lease liabilities		(119)	(45)
Interest paid		(2,516)	(1,975)
Dividends paid		(1,384)	–
Net cash from financing activities		(6,152)	(1,259)
Increase/(decrease) in cash and cash equivalents		4,622	(699)
Net cash and cash equivalents at beginning of year		(1,523)	(824)
Net cash and cash equivalents at end of year		3,099	(1,523)

Notes forming part of the financial statements

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 2010 comprise the Company and its subsidiaries (together referred to as 'the Group') and the Group's interest in 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

The Group financial statements ('financial statements') have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRS').

The auditors' report on the statutory accounts for the year ended 31 December 2010 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 498 (2) or (3) of the Companies Act 2006.

The financial information set out in this statement does not constitute the Group's statutory accounts for the year ended 31 December 2010. Statutory accounts for the year ended 31 December 2009 have been delivered to the Registrar of Companies. The auditors' report on the statutory accounts for the year ended 31 December 2009 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 498 (2) or (3) of the Companies Act 2006.

The consolidated financial statements of the Group as at and for the year ended 31 December 2009 are available on the Company's website: www.arenaleisureplc.com.

The financial statements were approved by the Board of Directors on 7 March 2011.

Going concern

The Group continues to be a cash-generative operational business with good quality assets. Revenues are generated from a variety of sources including industry funding through the Horserace Betting Levy Board ('HBLB') and income from its five-year (to 31 December 2011) BAGS media rights contract to provide live racing pictures to UK licensed betting offices. In addition, on 22 July 2009, the Group signed a new five-year agreement commencing on 1 January 2012 for the provision of media rights with Satellite Information Services Ltd ('SIS') that provides for £32.0m in advance payments, of which £25.0m has already been received and the balance of £7.0m is secured by letter of credit.

In March 2010, the Group agreed new banking facilities with its relationship lender, Lloyds Banking Group, totalling £55.0m that replaced existing bank facilities and which are committed until, and amortise to maturity on, 31 December 2013.

Although the current economic conditions create uncertainty, particularly over funding levels from the Levy on bookmakers, 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, the Group is expected to be able to operate within the level and covenant conditions of its new debt facilities.

The Directors have a reasonable expectation that the Company and 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.

Change in accounting policy: leased assets

From 1 January 2010 the Group has applied Improvements to IFRS (issued by IASB April 2009), which includes amendments to IAS 7 'Leases'. The change in accounting policy has resulted in the land in respect of the Doncaster Racecourse lease being recognised as a finance lease, where previously it was recognised as an operating lease. The change has been applied retrospectively and, in accordance with IAS 8, the prior year balance sheet figures have been restated, with the net effect of £8,000 recognised in equity. The impact of the change in 2010 is a £2,000 reduction in profit for the year.

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.

4. Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors of Arena Leisure Plc. The segment information set out below is consistent with the information presented to the Board for the purposes of evaluating performance and deciding upon resource allocation.

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

Additional information on this segment is as follows:

	Racecourse operations		Total	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Total external revenue	63,983	65,239	63,983	65,239
Segment profit from operations	7,247	6,985	7,247	6,985
Pre-opening costs associated with Lingfield Park Marriott Hotel development	(484)	(163)	(484)	(163)
Segment profit from operations before asset disposals	6,763	6,822	6,763	6,822
Other operating income	–	418	–	418
Segment profit from operations	6,763	7,240	6,763	7,240
Central operations	-	-	(2,381)	(2,461)
Share based payment	-	-	(320)	28
Share of joint venture result	-	-	1,352	515
Finance income	-	-	267	458
Finance expense	-	-	(2,058)	(1,659)
Profit for the year	6,763	7,240	3,623	4,121

The Group derives a significant proportion of its annual revenue from the Levy and from its LBO media rights agreement with BAGS, as disclosed below:

	2010 £'000	2009 £'000
Levy	17,727	21,542
Media rights income in relation to licensed betting offices ('LBO')	11,611	11,628
Other racecourse-related revenue	34,645	32,069
Total external revenue	63,983	65,239

5. Other operating income

In November 2009 Arena sold the land and buildings and fixtures and fittings associated with the Lingfield Park leisure club for £615,000, resulting in a profit on disposal of £418,000.

6. Finance income and expense

	2010 £'000	2009 £'000
Finance income		
Bank interest receivable	72	367
Other interest receivable	69	89
Derivative liability held for risk management	126	2
	267	458
Finance expense		
Bank interest payable	(1,672)	(1,240)
Finance lease interest	(113)	(64)
Amortisation of previous gain on present value of interest-free loans	(273)	(355)
	(2,058)	(1,659)
Net finance expense	(1,791)	(1,201)

The valuation of the Group's interest rate derivative contracts at 31 December 2010 has resulted in a liability of £1,328,000 (2009: £1,454,000) being recorded on the balance sheet and a credit of £126,000 (2009: £2,000) to the statement of comprehensive income.

A further £844,000 (2009: £735,000) of interest costs relating to development projects in progress have been capitalised in the year.

7. Taxation

There is no current year tax charge (2009: no tax charge) mainly due to the utilisation of HBLB capital credits which are not assessable to tax. At 31 December 2010, corporation tax losses representing trading and non-trading losses of £64,363,000 (2009: £63,988,000) were available for utilisation in future years, subject to agreement with HM Revenue & Customs.

The Directors have recognised a deferred tax liability on temporary differences of £13,308,000 (2009: £12,715,000). In addition, the Directors have also recognised a deferred tax asset for losses of £13,308,000 (2009: £12,715,000).

8. Earnings per share

	2010	2009
	£'000	£'000
Earnings		
Profit for the year attributable to equity shareholders of the parent company	3,731	4,213
	2010	2009
	Number	Number
	million	million
Weighted average number of shares		
Weighted average number of shares used in the calculation of basic and adjusted EPS	364.2	364.2
Dilutive potential ordinary shares		
Employee share options	–	–
Weighted average number of shares used in the calculation of diluted EPS	364.2	364.2

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 2010 was 4.30 million (2009: 4.58 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.

9. Dividends

	2010	2009
	£'000	£'000
Final dividend of 0.38p (2009: nil) per ordinary share proposed and paid during the year relating to the previous year's results	1,384	–

The Directors propose to pay a final dividend for 2010 of 0.38p per ordinary share totalling £1,384,000 (2009: 0.38p per ordinary share totalling £1,384,000). This will be recognised as a deduction to reserves in the current financial year.

10. Property, plant and equipment

During the year ended 31 December 2010 the Group acquired assets with a cost of £9,089,000 (2009: £19,200,000).

The Group has capitalised costs in relation to continuing development projects at Doncaster, Lingfield Park, Royal Windsor, Folkestone and Wolverhampton Racecourses. The Board considered the carrying value of assets under construction at 31 December 2010 and 31 December 2009 and concluded that no impairment provisions are required.

At 31 December 2010, the Group's commitments to purchase property, plant and equipment totalled £282,000 (2009: £409,000).

11. Accruals and deferred income

Included within deferred income is a £12,500,000 advanced payment received from SIS in July 2009 upon signing a new agreement for the provision of horse racing content from Arena's racecourses into licensed betting offices in the United Kingdom and Ireland and two other amounts in relation to the same agreement: a further £12,500,000 advanced payment received in July 2010 and £7,000,000 due for payment in July 2011 which has been invoiced and is included within trade receivables. The income deferred will be recognised in profit and loss on a straight-line basis over the five-year term of the agreement, which commences on 1 January 2012, and is classed as non-current.

12. Statement of net debt

	2010 £'000	2009 Restated* £'000
Cash and cash equivalents	3,099	351
Bank overdrafts	–	(1,874)
Net cash and cash equivalents	3,099	(1,523)
Bank loans	(38,987)	(39,500)
HBLB loans (present value of interest-free loans)	(2,913)	(4,260)
Finance lease liabilities (Doncaster and Worcester Racecourses)	(1,011)	(1,017)
	(39,812)	(46,300)

13. Events after the reporting date

On 10 February 2011, Arena was awarded the contract to provide catering services at both the Eton Dorney and Greenwich Park venues as part of the Olympic and Paralympic Games in 2012. The contract contains elements of both fixed income and variable income that is dependent upon the numbers of attendees and spend per head. The Board currently estimates that the net profit contribution from the contract in 2012 will be in the range of £0.5m to £1.0m.

Principal Risks

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

Commercial and operational risk

Arena's business is exposed to weaknesses in consumer spend, particularly in the private hospitality segment. Over recent years the contribution from this segment has reduced dramatically with a consequent reduction in profitability. Current trading levels are considered moderate and hence operational risk is less than in previous years. Economic conditions have caused a reduction in the levels of spend per head at racecourses and have impacted the Group's non-racing business streams, notably through conference, event and hotel revenues. Poor weather conditions can impact income, both from attendances and, in extreme cases, hosting of fixtures, resulting in a loss of profitability.

Management have taken mitigating actions to protect Arena from current and potential operational risks:

- The operating cost base has been aligned with reduced customer revenue and the operating synergies arising from bringing our catering operation in-house have protected profits;
- The Group has appointed suitably experienced and qualified senior management to oversee and direct the operation and standards of performance across all of Arena's racecourses;
- Appropriate systems and structures are in place to ensure proper training and supervision of staff and management information systems monitor performance on a regular basis against predetermined targets;
- Arena has made a significant investment in information technology, covering key business areas and in particular: reservations, ticketing and points of sale and customer relationship management. These systems are substantially embedded assets with a consequent improvement in the control environment of the Group; and
- The Group's three all-weather tracks provide significant protection against the loss of fixtures due to bad weather. In extreme weather conditions fixtures can be lost, although it is often the case that additional fixtures can be staged at short notice, thereby mitigating the potential loss.

Industry funding

A significant proportion of the Group's annual income is derived from the statutory Levy on bookmakers' profits from UK horseracing. The scheme has suffered significant reductions in yield with a consequent reduction in funding levels. Further reductions could be possible if a higher proportion of betting on UK racing moves to betting exchanges or offshore with reduced or no capture of revenue by the Levy. There is a risk that a replacement for the Levy or further reductions in the amount generated may have a detrimental impact on income. 2011 funding levels have been set at a relative minimum level and the downside risk is considered low. The determination of the 2011/12 scheme by Government is at a sustainable level that is above the current budgeted level. Government has expressed its intention to reform the Levy to avoid future determinations and provide a long-term sustainable mechanism. There is a high level of involvement of Arena management in the key industry bodies.

A significant proportion of Arena's annual income is derived from its contract for the supply of racing content to LBOs. These contracts are linked to the numbers of races that are staged in a particular period. Arena enters into long-term contracts for the provision of racing content and has entered into an early agreement for the period from 2012 to 2016, thereby securing this income for the medium term. Arena has historically been able to secure over 350 fixtures a year and has a reasonable expectation of continuing at this level.

Development and strategic risk

Arena has a strategy for the creation of value through maximising the potential utilisation of real estate and land assets. Central to this strategy are a number of planned and active development projects. The new Marriott hotel and leisure facility at Lingfield Park is now complete and no other on-going major projects are currently in their construction phase.

The future major developments are:

- A new hotel extension and casino (subject to securing a licence) at Wolverhampton Racecourse;
- A new hotel and residential development at Doncaster Racecourse;
- Planning application for a residential development and a redevelopment of Folkestone Racecourse; and
- Improved racecourse facilities, including a new entrance building, at Royal Windsor Racecourse.

Arena manages a number of strategic risks related to the delivery of value through exploiting its multiple sources of value creation:

- The current credit markets have reduced the availability and increased the cost of additional debt funding which has a potential impact on the Group's ability to source acceptable funding for future development projects; and
- Potential failure to achieve acceptable planning consents for the surplus land holdings, of which the most significant is that at Folkestone Racecourse.

In order to mitigate the risks in its development programme, Arena has or will:

- Undertake detailed feasibility studies in respect of the new developments using highly qualified and experienced consultants to assess the business potential in each location;
- Chose to work with internationally recognised hotel brands with significant experience and market presence based upon established management contract and franchise models;
- Employ suitably experienced and qualified project managers for each construction project who are dedicated to delivering the development from planning through to completion;
- Enter into fixed price contracts with suitably experienced and established building contractors;
- Maintain a close relationship with our current lender, as well as building and maintaining relationships with other potential lenders. In addition, management and the Board continue to consider other alternative sources of investment capital; and
- Detailed planning strategies have been developed in conjunction with a suitably qualified property consultant. Regular meetings are held with local council executives and planning departments and representations have been made through the Local Development Framework process.

Health and safety risk

Arena must ensure it satisfies all health and safety standards.

Arena takes the following actions to ensure the health and safety of its employees and customers:

- The Group has employed suitably qualified and experienced health and safety managers to ensure that the Group's industry leading health and safety policies are communicated and complied with;
- Each racecourse employs an on-site food safety specialist whose training is overseen by the Group's Health & Safety Manager. These on-site employees are, in turn, responsible for ensuring all racecourse catering staff receive food hygiene training; and
- From a racing perspective, the Group's Health and Safety Manager 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.

Responsibility statement of the Directors in respect of the annual financial report

The Directors confirm to the best of their knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board
Robert Mercer FCMA
Company Secretary
7 March 2011