

The directors present their annual report together with the audited financial statements for the year ended 31 March 2000.

## Results and dividends

The results of the group for the year are set out on page 20. The directors do not recommend the payment of a dividend. The loss after taxation for the year was £2,964,000.

## Business review

The main activities have been that of operating Lingfield Park, Folkestone, Wolverhampton, Southwell and Royal Windsor racecourses. Wolverhampton and Southwell racecourses were acquired on 26 July 1999 and Royal Windsor racecourse on 26 January 2000. On 31 March 2000 the group acquired a 99-year lease to operate Worcester racecourse. On 11 November 1999 the group sold the assets and business of Farringford Hotel on the Isle of Wight. The group is at an advanced stage of co-developing an integrated media and betting interface with Autotote Corporation, to facilitate global betting on horseracing from a variety of media platforms.

## Directors and their interests

The directors in office during the year to 31 March 2000 and subsequently, together with their beneficial interests in the company, were:

	Fully paid ordinary shares in the company	
	At 31 March 2000	At 31 March 1999
M E Pope	<b>470,751</b>	376,601
G T Parr	<b>3,125,000</b>	2,500,000
I R Penrose	<b>100,000</b>	–
R J Muddle (appointed 26 July 1999)	<b>20,000,000</b>	–
M J Barnes	<b>137,500</b>	110,000
A H Parker Bowles obe (appointed 8 September 1999)	–	–

The directors' holdings of share options over ordinary shares in the company are as follows:

	At 31 March 2000	Issued in year	Rights Issue adjustment <sup>(1)</sup>	At 31 March 1999	Exercise price <sup>(1)</sup>	Exercisable between
M E Pope	<b>768,638</b>	–	58,638	710,000	13p	18 June 2000 – 17 June 2007
	<b>193,672</b>	193,672	–	–	62p	26 January 2003 – 25 January 2010
	<b>37,690</b>	37,690	–	–	62p	26 January 2005 – 25 January 2010
	<b>1,000,000</b>	231,362	58,638	710,000		
G T Parr	<b>2,165,178</b>	–	165,178	2,000,000	13p	18 June 2000 – 17 June 2007
I R Penrose	<b>541,294</b>	–	41,294	500,000	14.25p	3 August 2001 – 2 August 2008 <sup>(2)</sup>
	<b>458,706</b>	458,706	–	–	62p	26 January 2003 – 26 January 2010
	<b>1,000,000</b>	458,706	41,294	500,000		

<sup>(1)</sup> as a result of the Rights Issue on 26 July 1999, the number of directors' share options and the exercise price were adjusted in line with the option agreements to retain their pro rata allocation following the increase in share capital.

<sup>(2)</sup> all the options above are held under the Discretionary Share Option Scheme, with the exception of 209,533 held by I R Penrose which are under the Share Option Plan.

No other directors held any share options either during or subsequent to the accounting period.

In addition to the above, 1,825,000 share options have been issued to employees of the group at an exercise price of 62p, and there is a 'pool' of 3,000,000 options at an exercise price of 62p which have not yet been allocated amongst the existing option holders.

The market price of Arena Leisure Plc ordinary shares at 31 March 2000 was 164p. High and low prices were 260p and 11p respectively over the year.

In accordance with the Articles of Association, M E Pope and M J Barnes retire by rotation and, being eligible, offer themselves for re-election. They both have a 12-month rolling service contract with the company.

There were no contracts of significance during the period in which any director had an interest.

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

### **Creditors' payment policy and practice**

The group's policy for the year to 31 March 2001 is to fix terms of payment when agreeing terms of business transactions, to ensure that suppliers are aware of such terms and normally abide by the agreed terms of payment. The number of days' purchases which were represented by year-end group trade creditors was 34 (company 35).

### **Year 2000**

The directors recognised the year 2000 problem as a potentially serious business issue. A review of the group's IT systems was undertaken along with key suppliers. As a result of this review no significant changes were necessary. Since the end of 1999 no problems have been experienced by any group company. The directors continue to monitor this issue closely.

### **Employment of disabled persons**

The group is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. Management actively pursues both the employment of disabled persons whenever a suitable vacancy arises and the continued employment and retraining of employees who become disabled whilst employed by the company. Particular attention is given to the training, career development and promotion of disabled employees with a view to encouraging them to play an active role in the development of the company.

### **Environmental issues**

The group is committed to minimising its impact on the environment by maintaining a continuous, group wide assessment and awareness of its environmental responsibilities. The group's policy is to meet and, where practical, exceed the requirements of all applicable legislation and standards. Furthermore, the group is conscious of its position and responsibilities in the community and, at all practicable opportunities, endeavours to support initiatives taken in the vicinity of our racecourses.

### **Employee involvement**

The communication of information to employees is carried out through regular management meetings at a national, regional and local level with staff briefings and notices as appropriate.

### Substantial shareholders

The directors are aware of the following other interests, in addition to the interests of the directors, representing 3% or more of the issued ordinary share capital of the company as at 31 July 2000:

	Ordinary shares of 5p	% of issued share capital
Guild Ventures Ltd	127,663,217	47.2
Rumney Manor Ltd	22,000,000	8.1

### Change of financial year end

It is the intention of the company to change its year end from 31 March to 31 December and therefore the next financial period will be for nine months from 1 April 2000 to 31 December 2000.

### Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Corporate governance

There is commitment to high standards of corporate governance throughout the group. The board confirms that throughout the year ended 31 March 2000 the group has complied with the provisions set out in Section 1 of the Combined Code, except that:

- ◆ until the appointment of A H Parker Bowles in September 1999, the company only had one non-executive director and one part-time executive chairman, following the death of the other non-executive director N W Kent-Lemon;
- ◆ non-executives are not appointed for specified periods (12-month rolling contracts);
- ◆ the audit committee has been established since the year end and consists of M E Pope (chairman), M J Barnes (non-executive director) and A H Parker Bowles (non-executive director);
- ◆ there is no formal structure of external training for board members, although the directors have relevant knowledge and experience for their roles;
- ◆ the Remuneration Committee consists of the two non-executive directors and the part-time executive chairman; and
- ◆ the group has decided to adopt the transitional approach for reporting on internal controls under the Combined Code set out in the letter from the Listing Authority to listed companies at the end of September 1999 and its report is set out on page 18.

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

## Directors

The board consists of a chairman, Martin Pope, two non-executive directors and three other executive directors of which Graham Parr is the chief executive. Both of the non-executive directors, John Barnes and Andrew Parker Bowles, are considered by the board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement.

Biographies of the board members appear on page 12 of this report. These indicate the high levels and range of business experience which is essential to manage effectively a business of the size and complexity of the group. The group continues to experience rapid growth, and the board is aware of its responsibilities to strengthen the board at appropriate times in the group's development.

The board meets at least six times each year, and more frequently where business needs require, as has been the case since the last annual report. The board has a schedule of matters reserved to it for decision and the requirement for board approval on these matters is communicated widely throughout the senior management of the group. This includes matters such as material capital commitments, commencing or settling major litigation, business acquisitions and disposals and appointments to subsidiary company boards.

There is an agreed procedure for directors to take independent professional advice if necessary and at the company's expense. This is in addition to the access which every director has to the company secretary.

The differing roles of chairman and chief executive are acknowledged and defined in separate statements approved by the board. The key functions of the chairman are to conduct board meetings and meetings of shareholders and to ensure that all directors are properly briefed in order to take a full and constructive part in board discussions. The chief executive is required to develop and lead business strategies and processes to enable the group's business to meet the requirements of its shareholders.

The senior non-executive director is John Barnes and concerns relating to the executive management of the company or the performance of the other non-executive directors can be raised with him.

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

Full details of directors' remuneration and a statement of the company's remuneration policy is set out in the Remuneration Report appearing on page 19. The members of the Remuneration Committee and the principal terms of reference of the committee appear on page 19. Executive directors abstain from any discussion or voting at full board meetings on Remuneration Committee recommendations where the recommendations have a direct bearing on their own remuneration package. The details of each executive director's individual package are fixed by the committee in line with the policy adopted by the full board.

### Communication

The company places a great deal of importance on communication with its shareholders. The full report and accounts are sent to all shareholders and to other parties on request who have an interest in the group's performance. Shareholders also may have direct access to the company, and the company responds to numerous letters and enquiries from shareholders on a wide range of issues.

There is regular dialogue with individual institutional shareholders, and all shareholders have the opportunity to put questions at the company's annual general meeting and the board makes a presentation at the meeting to highlight the key business developments during the financial year.

### Audit and internal control

The respective responsibilities of the directors and the auditors in connection with the accounts are explained on page 36 and the directors' statement on going concern appears below.

The directors are responsible for the company's system of internal financial control which is designed to provide reasonable but not absolute assurance against material misstatement or loss. The key procedures that the directors have established to provide effective internal financial controls are as follows:

*Financial reporting:* A detailed formal budgeting process for all group businesses culminates in an annual group budget which is approved by the board. Results for the company and for its main constituent businesses are reported monthly against the budget to the board.

*Financial and accounting principles:* Comprehensive financial and accounting controls are required by the board for effective financial control.

*Capital investment:* The company has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired.

The directors have reviewed the effectiveness of the system of internal financial control from information provided by management and external auditors.

The Audit Committee will keep the scope and cost effectiveness of both internal controls and the external audit under review. The independence and objectivity of the external auditors is also considered on a regular basis, with particular regard to the level of non-audit fees. The split between audit and non-audit fees for the year under review appears on page 25. The non-audit fees were paid in respect of tax advice, due diligence reviews and reports required for shareholder documents and are considered by the committee not to affect independence or objectivity.

### Going concern

The directors confirm that, after making enquiries, they have a reasonable expectation that the company and group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

### Auditors

A resolution proposing the re-appointment of BDO Stoy Hayward will be submitted to the annual general meeting.

By order of the board  
Ian R Penrose, *Company secretary*  
31 July 2000

Registered office  
8 Baker Street  
London W1M 1da

# Remuneration report

## The Remuneration Committee

The Remuneration Committee, whose members are set out on page 16, met at regular intervals during the year.

## Remuneration policy

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

The company has complied fully during the period under review with the remuneration principles incorporated in the Combined Code.

The company operates with a small, highly skilled and experienced head office staff. The retention and motivation of staff of the calibre to manage and develop the business of the company is fundamental to the company's success.

## Components of remuneration

Components of remuneration are:

- ◆ basic salary and benefits;
- ◆ annual bonus where considered appropriate following appraisal of individual contribution made during the year;
- ◆ long-term incentives; and
- ◆ pension contributions into a defined contribution pension scheme.

The granting of share options is at the discretion of the board and is related to performance criteria. Details of the share options granted to directors are included in the directors' report.

## Directors' emoluments for the year ended 31 March 2000

	Salary/fee	Annual bonus	Benefits	Total 2000	Pension contributions 2000	Total 1999	Pension contributions 1999
	£000	£000	£000	£000	£000	£000	£000
M E Pope	30	30	–	60	–	25	–
G T Parr	97	40	10	147	–	83	–
I R Penrose	75	37	6	118	6	58	3
R J Muddle (appointed 26 July 1999)	63	40	2	105	–	–	–
M J Barnes	15	5	–	20	–	12	–
A H Parker Bowles (appointed 8 September 1999)	8	3	–	11	–	–	–
N W Kent-Lemon	–	–	–	–	–	8	–
R Lynn	–	–	–	–	–	21	–
<b>Total</b>	<b>288</b>	<b>155</b>	<b>18</b>	<b>461</b>	<b>6</b>	<b>207</b>	<b>3</b>

## Contracts of service

All current directors have 12-month rolling contracts.

## Consolidated profit and loss account

for the year ended 31 March 2000

	Note	Year ended 31 March 2000			Total £000	Year ended 31 March 1999 as restated £000
		Discontinued operations £000	Continuing operations £000	Acquisitions £000		
<b>Turnover</b>	2	652	7,985	5,786	<b>14,423</b>	8,907
Cost of sales		(363)	(5,858)	(3,414)	<b>(9,635)</b>	(6,240)
<b>Gross profit</b>		289	2,127	2,372	<b>4,788</b>	2,667
<b>Administrative expenses</b>						
Exceptional share option costs	3,18	–	(675)	–	<b>(675)</b>	–
Other	3,21	(138)	(4,599)	(1,894)	<b>(6,631)</b>	(2,498)
		(138)	(5,274)	(1,894)	<b>(7,306)</b>	(2,498)
Other operating income	4	80	145	–	<b>225</b>	458
<b>Operating profit/(loss)</b>		<b>231</b>	<b>(3,002)</b>	<b>478</b>	<b>(2,293)</b>	627
Exceptional items	7				–	(96)
Net interest payable and similar charges	6				<b>(671)</b>	(328)
<b>(Loss)/profit on ordinary activities before and after taxation and retained</b>	2,7,8,9,20				<b>(2,964)</b>	203
					Pence	Pence
Basic (loss)/earnings per share	10				<b>(1.21)</b>	0.10
Diluted earnings per share	10				–	0.10

## Statement of total recognised gains and losses

for the year ended 31 March 2000

	Note	Year ended 31 March 2000 £000	Year ended 31 March 1999 as restated £000
(Loss)/profit for the financial year		<b>(2,964)</b>	203
Prior year adjustment	21	<b>(650)</b>	–
<b>Total recognised losses since the last annual report</b>		<b>(3,614)</b>	203

The notes on pages 23 to 35 form part of these financial statements.

## Balance sheets

at 31 March 2000

	Note	Group		Company	
		31 March 2000 £000	31 March 1999 as restated £000	31 March 2000 £000	31 March 1999 as restated £000
<b>Fixed assets</b>					
Tangible assets	11	<b>51,512</b>	20,157	<b>72</b>	26
Investments	12	<b>345</b>	150	<b>45,251</b>	14,514
Intangible assets	13	<b>6,032</b>	–	–	–
		<b>57,889</b>	20,307	<b>45,323</b>	14,540
<b>Current assets</b>					
Stock	14	<b>163</b>	85	–	–
Debtors – due within one year	15	<b>2,672</b>	1,321	<b>239</b>	48
– due in more than one year	15	–	–	<b>7,471</b>	5,667
		<b>2,672</b>	1,321	<b>7,710</b>	5,715
Cash at bank and in hand		<b>1,160</b>	779	<b>149</b>	–
		<b>3,995</b>	2,185	<b>7,859</b>	5,715
<b>Creditors: amounts falling due within one year</b>	16	<b>(7,618)</b>	(4,740)	<b>(2,126)</b>	(3,344)
Net current (liabilities)/assets		<b>(3,623)</b>	(2,555)	<b>5,733</b>	2,371
<b>Total assets less current liabilities</b>		<b>54,266</b>	17,752	<b>51,056</b>	16,911
<b>Creditors: amounts falling due after more than one year</b>	17	<b>(21,239)</b>	(3,165)	<b>(17,130)</b>	(2,700)
Provisions for liabilities and charges	18	<b>(675)</b>	–	–	–
<b>Net assets</b>		<b>32,352</b>	14,587	<b>33,926</b>	14,211
<b>Capital and reserves</b>					
Called up share capital	19	<b>13,527</b>	9,401	<b>13,527</b>	9,401
Share premium account	20	<b>11,186</b>	–	<b>11,186</b>	–
Merger reserve	20	<b>5,417</b>	–	<b>5,417</b>	–
Revaluation reserve	20	<b>15</b>	15	<b>15</b>	15
Special reserve	20	<b>4,564</b>	4,564	<b>4,564</b>	4,564
Capital reserve	20	–	16	–	–
Profit and loss account	20	<b>(2,357)</b>	591	<b>(783)</b>	231
Shareholders' funds	23	<b>32,352</b>	14,587	<b>33,926</b>	14,211

All amounts within shareholders' funds are equity.

These financial statements were approved by the board of directors on 31 July 2000 and were signed on its behalf by:

I R Penrose

M E Pope

*Directors*

The notes on pages 23 to 35 form part of these financial statements.

# Group cash flow statement

for the year ended 31 March 2000

		31 March 2000	31 March 1999 as restated
	Note	£000	£000
Net cash (outflow)/inflow from operating activities	24	(730)	944
<b>Returns on investments and servicing of finance</b>			
Dividend received		–	118
Interest received		4	38
Interest paid		(675)	(366)
		(671)	(210)
<b>Capital expenditure</b>			
Purchase of tangible fixed assets		(3,007)	(557)
Sale of tangible fixed assets		935	–
		(2,072)	(557)
<b>Acquisitions and disposals</b>			
Acquisition of subsidiaries		(24,181)	(3,220)
Net overdraft acquired with subsidiaries		(125)	–
		(27,779)	(3,043)
<b>Financing</b>			
Inception of loans		18,125	1,200
Issue of ordinary shares		14,955	–
Expenses paid on issue of shares		(782)	–
Repayment of loans		(4,135)	(142)
		28,163	1,058
<b>Increase/(decrease) in cash</b>	25,26	<b>384</b>	<b>(1,985)</b>

The notes on pages 23 to 35 form part of these financial statements.

# Notes to the accounts

for the year ended 31 March 2000

## 1 PRINCIPAL ACCOUNTING POLICIES

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### Basis of preparation and consolidation

The financial statements, which have been prepared on the basis of the historical cost convention as modified by the revaluation of certain freehold and leasehold properties, and in accordance with applicable accounting standards, include the financial statements of the company and all of its subsidiary undertakings made up to 31 March 2000, using the acquisition method of accounting.

In preparing these financial statements the group has adopted FRS 15 for the first time.

### Goodwill

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the identifiable assets and liabilities acquired. It is capitalised and amortised through the profit and loss account over its useful economic life which the directors estimate to be 20 years. Impairment tests on the carrying value of goodwill are undertaken:

- ◆ at the end of the first full financial year following acquisition; and
- ◆ in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Prior to the adoption of FRS 10 all positive goodwill was eliminated against reserves as a matter of accounting policy. Such goodwill remains eliminated against reserves and will be charged to the profit and loss account on the subsequent disposal of the business to which it relates.

### Depreciation

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all tangible fixed assets, except for investment properties and freehold land, evenly over their estimated useful economic lives. Depreciation is provided on a straight line basis as follows:

Freehold buildings	–	2% per annum
Leasehold land and buildings	–	over length of lease
All-weather tracks	–	5% per annum
Fixtures and fittings	–	5% to 25% per annum
Plant, machinery and equipment	–	5% to 25% per annum
Motor vehicles	–	25% per annum

In previous accounting periods the directors considered that the lives of freehold buildings and their residual values, based on prices prevailing at the time of acquisition or subsequent revaluation, were such that the depreciation would not be material. However, the directors have reassessed the useful lives of these assets and in compliance with FRS 15 have decided that they should be depreciated over 50 years.

### Stock

Stock, comprising bar stock and consumables, are stated at the lower of cost and net realisable value.

### Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect of all timing differences including revaluation surpluses to the extent that it is probable that liabilities or assets will crystallise in the foreseeable future.

# Notes to the accounts continued

for the year ended 31 March 2000

## 1 PRINCIPAL ACCOUNTING POLICIES CONTINUED

### Development costs

Expenditure incurred in relation to the development of internet activities within Arena Online Services Limited was previously deferred and carried forward within prepayments and deferred income. The directors have decided that it would be more appropriate to write these costs off as they arise and the accounting policy has been amended accordingly (note 21).

## 2 TURNOVER, (LOSS)/PROFIT BEFORE TAXATION AND NET ASSETS

Turnover represents the value of sales by group companies to third parties within the UK excluding value added tax. All turnover originates in the UK.

	Turnover		Pre-tax profit/(loss)		Net assets	
	2000	1999	2000	1999	2000	1999
	£000	£000	£000	£000	£000	£000
<b>Analysis by class of business</b>						
Racecourse	13,771	8,115	1,642	1,540	30,261	12,620
Hotel	652	792	235	98	923	687
Administration and internet development	–	–	(4,841)	(1,435)	1,168	1,280
	<b>14,423</b>	<b>8,907</b>	<b>(2,964)</b>	<b>203</b>	<b>32,352</b>	<b>14,587</b>

Racecourse operations in 1999 benefited from income of £298,000 relating to an exceptional SIS dividend and the sale of a raceday fixture. Pre-tax (loss)/profit is stated before management charges and income within each business class.

## 3 ADMINISTRATIVE EXPENSES

	2000	1999
	£000	£000
Administrative expenses include the following:		
Exceptional share option costs representing the provision for employer's national insurance contributions on share options issued post 5 April 1999 (note 18)	675	–
Expenditure incurred in relation to internet development activities (note 21), and other group reorganisation costs	2,687	650
Amortisation of goodwill arising on consolidation (note 13)	119	–

## 4 OTHER OPERATING INCOME

	2000	1999
	£000	£000
Income from Satellite Information Services	–	118
Management charges receivable	–	81
Rent receivable	81	49
Other income	144	210
	<b>225</b>	<b>458</b>

## 5 STAFF NUMBERS AND COSTS

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

	Number of employees	
	2000	1999
Management and administration	95	67
Customer service	172	119
	<b>267</b>	<b>186</b>

The aggregate payroll costs of these persons were as follows:

	2000	1999
	£000	£000
Wages and salaries	2,775	2,012
Social security costs	196	138
Other pension costs	17	4
	<b>2,988</b>	<b>2,154</b>

Details of individual director's emoluments, share options and pensions are disclosed on pages 14 and 19 of this annual report.

## 6 NET INTEREST PAYABLE

	2000	1999
	£000	£000
Bank loans and overdrafts	675	366
Bank interest receivable	(4)	(38)
	<b>671</b>	<b>328</b>

## 7 (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2000	1999
	£000	£000
(Loss)/profit on ordinary activities before taxation is stated after charging:		
Exceptional share option costs (note 18)	675	–
Auditors' remuneration and expenses – audit services (including £20,000 in respect of the company (1999: £15,000))	55	55
Auditors' remuneration and expenses – non-audit services	65	–
Depreciation	808	305
Exceptional item	–	96

The exceptional item relates to underprovided termination costs in relation to an activity discontinued in previous years.

## 8 TAXATION

There is no tax charge due to the availability of prior year trading losses. There is no material provided or unprovided deferred tax.

## Notes to the accounts continued

for the year ended 31 March 2000

### 9 (LOSS)/PROFIT FOR THE YEAR

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

The group results for the year include a loss of £1,014,000 (year to 31 March 1999: loss of £80,000) which is dealt with in the financial statements of the company.

### 10 EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the loss after tax of £2,964,000 (31 March 1999: profit £203,000 as restated, note 21) and on 244,290,884 (31 March 1999: 205,141,268 as restated, reflecting the bonus element of the Rights Issue, note 19) ordinary shares, being the weighted average number of ordinary shares in issue.

No diluted earnings per share is shown in this year's financial statements, as the share options are anti-dilutive.

### 11 TANGIBLE FIXED ASSETS

Group	Leasehold land and buildings £000	Freehold land and buildings £000	Plant, machinery and equipment £000	Fixtures, fittings and motor vehicles £000	Total £000
Cost or valuation:					
At 1 April 1999	–	19,676	1,024	1,164	<b>21,864</b>
Additions	1,241	816	148	802	<b>3,007</b>
On acquisition of subsidiaries	7	27,389	1,564	1,040	<b>30,000</b>
Disposals	–	(674)	(9)	(436)	<b>(1,119)</b>
<b>At 31 March 2000</b>	<b>1,248</b>	<b>47,207</b>	<b>2,727</b>	<b>2,570</b>	<b>53,752</b>
Depreciation:					
At 1 April 1999	–	142	812	753	<b>1,707</b>
Charged in year	–	208	317	283	<b>808</b>
On disposals	–	–	(4)	(271)	<b>(275)</b>
<b>At 31 March 2000</b>	<b>–</b>	<b>350</b>	<b>1,125</b>	<b>765</b>	<b>2,240</b>
Net book value:					
<b>At 31 March 2000</b>	<b>1,248</b>	<b>46,857</b>	<b>1,602</b>	<b>1,805</b>	<b>51,512</b>
At 31 March 1999	–	19,534	212	411	20,157

Included in freehold land and buildings is an investment property (Lingfield House) which is stated at the directors' estimate of open market value of £700,000. The company has taken advantage of the transitional provisions in FRS 15 this year to retain the existing book values including those of its unimpaired tangible fixed assets which were previously stated at valuation. The directors believe there is no significant difference between market value and book value of land and buildings. Tangible fixed assets include non-depreciable assets of £36,908,000.

## 11 TANGIBLE FIXED ASSETS CONTINUED

<b>Company</b>	Fixtures, fittings and motor vehicles
	£000
Cost:	
At 1 April 1999	32
Additions	60
<b>At 31 March 2000</b>	<b>92</b>
Depreciation:	
At 1 April 1999	6
Charged in year	14
<b>At 31 March 2000</b>	<b>20</b>
Net book value:	
<b>At 31 March 2000</b>	<b>72</b>
At 31 March 1999	26

## 12 INVESTMENTS (HELD AS FIXED ASSETS)

<b>Group</b>	Unlisted investment
	£000
Cost and net book value:	
At 31 March 1999	150
On acquisition of subsidiaries	195
<b>At 31 March 2000</b>	<b>345</b>

The investments held by the group represent shares in Satellite Information Services Limited and are stated at the directors' estimate of fair value.

<b>Company</b>	Shares in group undertakings
	£000
Cost and net book value:	
At 31 March 1999	14,514
Acquisition of RAM Racing Leisure Limited	16,829
Acquisition of the Windsor Group	13,908
<b>At 31 March 2000</b>	<b>45,251</b>

## Notes to the accounts continued

for the year ended 31 March 2000

### 12 INVESTMENTS (HELD AS FIXED ASSETS) CONTINUED

The principal subsidiary undertakings, in which the company owns 100% of the ordinary share capital (with the exception of Worcester Racecourse Limited (81%)), are as follows:

	Country of registration	Principal activity
Lingfield Park (1991) Limited	England	Racecourse
Folkestone Race Course Limited	England	Racecourse
Farringford Hotel (Freshwater) Limited	England	Hoteliers
Arena Online Services Limited	England	Internet services
Foxberg Limited	England	Dormant
RAM Racing Leisure Limited	England	Holding company
Windsor Racecourse Company Limited	England	Holding company
Windsor Concessions Limited	England	Racecourse concession
Windsor Racing Limited	England	Racecourse
Worcester Racecourse Limited	England	Racecourse
Dunstall Park Centre Limited*	England	Racecourse/Hotel
RAM Racecourses Limited*	England	Racecourse
Rowanglen Limited*	England	Dormant
Dunstall Park Stables Limited*	England	Dormant
Southwell Race Company Limited*	England	Dormant

\* denotes indirect holdings

### 13 INTANGIBLE ASSETS

	Goodwill on consolidation
	£000
Cost:	
At 1 April 1999	–
Additions	6,151
<b>At 31 March 2000</b>	<b>6,151</b>
Amortisation:	
At 1 April 1999	–
Provision for year	119
<b>At 31 March 2000</b>	<b>119</b>
Net book value:	
<b>At 31 March 2000</b>	<b>6,032</b>
At 31 March 1999	–

14 STOCK	Group		Company	
	2000	1999	2000	1999
	£000	£000	£000	£000
Consumable stock	14	30	–	–
Stock for resale	149	55	–	–
	<b>163</b>	<b>85</b>	<b>–</b>	<b>–</b>

The replacement cost of stock is not materially different to its book value.

15 DEBTORS	Group		Company	
	2000	1999	2000	1999
	£000	£000	£000	£000
<b>Amounts falling due within one year</b>				
Trade debtors	668	313	–	–
Other debtors	1,138	307	236	1
Prepayments	866	701	3	47
	<b>2,672</b>	<b>1,321</b>	<b>239</b>	<b>48</b>

#### Amounts falling due after more than one year

Amounts owed by subsidiary undertakings	–	–	7,471	5,667
	<b>2,672</b>	<b>1,321</b>	<b>7,710</b>	<b>5,715</b>

#### 16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2000	1999	2000	1999
	£000	£000	£000	£000
Bank overdraft (secured)	3,140	3,143	–	2,852
Trade creditors	1,602	358	181	31
Amounts due to subsidiary undertakings	–	–	1,481	242
Other creditors	517	260	3	–
Taxation and social security	176	55	–	–
Obligations under finance leases	23	22	3	12
Accruals	1,431	722	458	207
Other loans	729	180	–	–
	<b>7,618</b>	<b>4,740</b>	<b>2,126</b>	<b>3,344</b>

The bank loan (note 17) and overdraft are secured by a fixed and floating charge on the assets and undertakings of the group companies and a first legal charge on all the freehold properties owned by the group. Interest is charged at 1% over Bank of Scotland base rate.

## Notes to the accounts continued

for the year ended 31 March 2000

### 17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2000	1999	2000	1999
	£000	£000	£000	£000
Bank loan (secured)	17,130	2,700	17,130	2,700
Obligations under finance leases	3	13	–	–
Accruals and deferred income	2,917	297	–	–
Other loans	1,189	155	–	–
	<b>21,239</b>	<b>3,165</b>	<b>17,130</b>	<b>2,700</b>

Short-term debtors and creditors are not treated as financial assets and liabilities in relation to FRS 13 disclosure requirements.

All bank borrowings are in sterling and on floating interest rates. In the current economic climate and with the group's evolving structure hedging for interest rate risk is not considered appropriate. However, the board constantly monitors the financial markets to ensure this policy remains in the group's interest. The group does not face any significant foreign currency risk. As at 31 March 2000 the group had committed unutilised bank facilities of £2,890,000 (1999: £157,000). Short-term liquidity risk is managed by obtaining and reviewing the adequacy of banking facilities. The group does not use derivative financial instruments to manage risk. The other loans represent monies advanced (interest free) in sterling by the Horserace Betting Levy Board. Of the total balance £729,000 is repayable within one year and £413,000 is repayable within one to two years. The directors consider that the fair value of this loan at an interest rate of 7% is £1,720,000.

Bank loans are repayable in instalments as follows:

	£000
One to two years	2,000
Two to five years	6,000
Over five years	9,130
	<b>17,130</b>

### 18 PROVISION FOR LIABILITIES AND CHARGES

	Group	Company
	£000	£000
<b>Group and company</b>		
At the beginning of period	–	–
Provisions made in the period	675	–
At end of period	<b>675</b>	–

Following the 1999 budget, employer's national insurance contributions became payable on gains made by employees on share options granted after 5 April 1999, at the date of exercise. The above provision reflects this future estimated liability and is calculated by applying the national insurance rate of 12.2% to the difference between the market price of shares at 31 March 2000, and the price at which options were granted, multiplied by the number of options granted.

## 19 CALLED UP SHARE CAPITAL

2000  
£000

1999  
£000

### Group and company

#### Authorised

339,172,000 ordinary shares of 5p each (31 March 1999: 250,000,000) **16,959** 12,500

On 25 June 1999, the authorised share capital was increased to £16,958,600 by the creation of 89,172,000 additional new ordinary shares of 5p each, giving a number of authorised shares of 339,172,000.

2000  
£000

1999  
£000

#### Allotted, called up and fully paid

270,545,173 ordinary shares of 5p each (31 March 1999: 188,013,260) **13,527** 9,401

Details of share options are included in the directors' report.

On 18 August 1999 47,003,315 ordinary shares of 5p each were issued (fully paid) at 15p per share pursuant to a 1-for-4 Rights Issue and on 26 July 1999 20,000,000 ordinary shares of 5p each were issued by way of consideration in connection with the acquisition of RAM Racing Leisure Limited.

On 3 December 1999 12,750,820 ordinary shares of 5p each were placed (fully paid) at 62p per share and on 26 January 2000 2,777,778 ordinary shares of 5p each were issued by way of consideration in connection with the acquisition of the Royal Windsor Racecourse.

## 20 RESERVES

	Share premium account	Merger reserve	Revaluation reserve	Special reserves	Capital reserve	Profit and loss account
	£000	£000	£000	£000	£000	£000
<b>Group</b>						
<b>At 1 April 1999</b>						
As previously reported	–	–	15	4,564	16	1,241
Prior year adjustment (note 21)	–	–	–	–	–	(650)
As restated	–	–	15	4,564	16	591
Shares issued in year re: RAM acquisition	–	2,000	–	–	–	–
Shares issued in year re: Rights Issue	4,700	–	–	–	–	–
Shares issued in year re: Windsor acquisition	–	3,417	–	–	–	–
Share issue costs	(782)	–	–	–	–	–
Placing of shares in year	7,268	–	–	–	–	–
Transfer	–	–	–	–	(16)	16
Retained loss for year	–	–	–	–	–	(2,964)
<b>At 31 March 2000</b>	<b>11,186</b>	<b>5,417</b>	<b>15</b>	<b>4,564</b>	<b>–</b>	<b>(2,357)</b>

Prior to the adoption of FRS 10 all positive goodwill was eliminated against reserves as a matter of accounting policy. Such goodwill remains eliminated against reserves and will be charged to the profit and loss account on the subsequent disposal of the business to which it relates. Cumulative goodwill eliminated against reserves at 31 March 2000 was £303,000 (31 March 1999: £303,000).

# Notes to the accounts continued

for the year ended 31 March 2000

## 20 RESERVES CONTINUED

	Share premium account	Merger reserve	Revaluation reserve	Special reserves	Profit and loss account
	£000	£000	£000	£000	£000
<b>Company</b>					
<b>At 1 April 1999</b>					
As previously reported	–	–	15	4,564	231
Shares issued in year re: RAM acquisition	–	2,000	–	–	–
Shares issued in year re: Rights Issue	4,700	–	–	–	–
Shares issued in year re: Windsor acquisition	–	3,417	–	–	–
Share issue costs	(782)	–	–	–	–
Placing of shares in year	7,268	–	–	–	–
Retained loss for year	–	–	–	–	(1,014)
<b>At 31 March 2000</b>	<b>11,186</b>	<b>5,417</b>	<b>15</b>	<b>4,564</b>	<b>(783)</b>

## 21 PRIOR YEAR ADJUSTMENT

	2000	1999
	£000	£000
<b>Change in accounting policy</b>		
Write-off of development costs	<b>1,893</b>	650

The group has reviewed its treatment of development costs. Previously the group classified such costs as prepayments and wrote them off against future revenue.

The directors have decided that it would be more appropriate to write these costs off as they arise, as a consequence an amount of £650,000 has been written off as a prior year adjustment. The above table shows the effect on current and prior year results of the accounting policy change.

## 22 ACQUISITIONS

### RAM Racing Leisure Limited

On 26 July 1999 Arena Leisure Plc acquired 100% of the issued share capital of RAM Racing Leisure Limited for £16,000,000 paid in cash and shares. Acquisition costs totalled £829,000.

The following table shows the aggregate fair values of the net assets in connection with the acquisition and fair value adjustments at the date of acquisition.

	Book value at date of acquisition	Fair value adjustment	Fair values at date of acquisition
	£000	£000	£000
Tangible fixed assets	18,418	582	19,000
Fixed asset investments	195	–	195
Current assets	1,189	–	1,189
Current liabilities	(2,563)	–	(2,563)
Creditors due after more than one year	(1,188)	–	(1,188)
Deferred income	(10,156)	7,617	(2,539)
	<b>5,895</b>	<b>8,199</b>	<b>14,094</b>

## 22 ACQUISITIONS CONTINUED

£000

Satisfied by:

Cash	13,000
Shares	3,000
	<b>16,000</b>

The fair value adjustments represent:

- ◆ a revaluation of tangible fixed assets based on directors' valuation; and
- ◆ a reduction in the value of deferred income based on directors' estimate of its fair value.

Goodwill on acquisition was £2,735,000.

RAM Racing Leisure Limited made a consolidated profit of £834,000 (turnover £4,389,000; operating profit £460,000) in the period from 1 January 1999 to 31 July 1999. No taxation was payable in this period or in the period from acquisition to 31 March 2000. There were no recognised gains or losses other than those included in the profit and loss for those periods. Its profit after taxation for the year ended 31 December 1998 was £774,000.

### Royal Windsor Racecourse

On 26 January 2000 Arena Leisure Plc acquired the Royal Windsor Racecourse for £13,555,556 paid in cash and shares. Acquisition costs totalled £352,000.

The following table shows the aggregate fair values of the net assets in connection with the acquisition and fair value adjustments at the date of acquisition.

	Book value at date of acquisition	Fair value adjustment	Fair values at date of acquisition
	£000	£000	£000
Tangible fixed assets	10,689	311	11,000
Current assets	232	–	232
Current liabilities	(550)	–	(550)
Creditors due after more than one year	(113)	–	(113)
Deferred income	(307)	230	(77)
	<b>9,951</b>	<b>541</b>	<b>10,492</b>

Satisfied by:

Cash	10,000
Shares	3,556
	<b>13,556</b>

The fair value adjustments represent:

- ◆ a revaluation of tangible fixed assets based on directors' valuation; and
- ◆ a reduction in the value of deferred income to based on directors' estimate of its fair value.

Goodwill on acquisition was £3,416,000.

The Royal Windsor Racecourse made a profit of £377,000 (turnover £2,942,000; operating profit £522,000) in the period from 1 January 1999 to 31 January 2000. A provision for taxation of £144,000 has been made in respect of this period. There were no recognised gains or losses other than those included in the profit and loss account for those periods. Its profit after taxation for the period ended 31 December 1998 was £374,000.

## Notes to the accounts continued

for the year ended 31 March 2000

### 22 ACQUISITIONS CONTINUED

	£000
Summary of cash flow effect of acquisitions:	
Cash paid	23,000
Acquisition costs	1,181
	24,181
Net cash and overdrafts acquired with subsidiaries	125
	<b>24,306</b>

### 23 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Group		Company	
	2000	1999	2000	1999
	£000	£000	£000	£000
(Loss)/profit for the financial period	<b>(2,964)</b>	203	<b>(1,014)</b>	(80)
New share capital subscribed (net of expenses)	<b>20,729</b>	–	<b>20,729</b>	–
	<b>17,765</b>	203	<b>19,715</b>	(80)
Opening shareholders' funds	<b>14,587</b>	14,384	<b>14,211</b>	14,291
Closing shareholders' funds	<b>32,352</b>	14,587	<b>33,926</b>	14,211

### 24 RECONCILIATION OF OPERATING PROFIT TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	2000	1999
	£000	£000
Operating profit	<b>(2,293)</b>	627
Depreciation charges	<b>808</b>	305
Amortisation of goodwill	<b>119</b>	–
Profit on disposal of tangible fixed assets	<b>(91)</b>	–
Dividends received	–	(118)
Increase in stocks	<b>(50)</b>	(9)
Increase in debtors	<b>(108)</b>	(83)
Increase in creditors	<b>210</b>	363
Increase in provisions	<b>675</b>	–
Exceptional items	–	(141)
Net cash (outflow)/inflow from operating activities	<b>(730)</b>	944

Details of the exceptional item, partly provided for as at 31 March 1999 within provisions, are included in note 7.

## 25 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2000	1999
	£000	£000
Increase/(decrease) in cash in the period	<b>384</b>	(1,985)
Cash inflow from increase in debt	<b>(13,990)</b>	(1,058)
Change in net debt arising from cash flows	<b>(13,606)</b>	(3,043)
Loans acquired on acquisition	<b>(2,023)</b>	(477)
Change in net debt during period	<b>(15,629)</b>	(3,520)
Opening net debt	<b>(5,399)</b>	(1,879)
Closing net debt	<b>(21,028)</b>	(5,399)

## 26 ANALYSIS OF NET DEBT

	At 31 March 1999	Cash flow	On acquisition	At 31 March 2000
	£000	£000	£000	£000
Cash at bank and in hand	779	231	150	<b>1,160</b>
Overdrafts	(3,143)	278	(275)	<b>(3,140)</b>
	(2,364)	509	(125)	<b>(1,980)</b>
Loans	(3,035)	(13,990)	(2,023)	<b>(19,048)</b>
Total	(5,399)	(13,481)	(2,148)	<b>(21,028)</b>

## 27 IMPACT OF ACQUIRED AND DISPOSED BUSINESSES

### Impact of acquired and disposed businesses on the consolidated cash flow to 31 March 2000

Sale of tangible fixed assets include £902,000 being the net proceeds from the sale of the business and assets of Farringford Hotel. Purchase of tangible fixed assets include £376,000 acquired within the RAM Racing Leisure group and £85,000 within Royal Windsor Racecourse. Inception of loans include £125,000 within RAM Racing Leisure group and repayment of loans of £352,000 also within the RAM Racing Leisure group. Net cash flow from operating activities includes £1,373,000 cash inflow from RAM Racing Leisure group.

## 28 RELATED PARTY TRANSACTIONS

Following the successful placing of shares on 3 December 1999, by Arena Leisure Plc in order to fund the acquisition of Royal Windsor Racecourse, TJH Group Limited ceased to be the ultimate parent company.

The relationship between Arena Leisure Plc and TJH Group Limited is regulated by a relationship agreement entered into in compliance with the requirements of The London Stock Exchange.

# Auditors' report

## To the shareholders of Arena Leisure Plc

We have audited the financial statements on pages 20 to 35 which have been prepared under the accounting policies set out on pages 23 and 24.

## Respective responsibilities of directors and auditors

As described on page 16 the company's directors are responsible for preparing the annual report, including the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the Listing Authority and by our profession's ethical guidance.

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

We review whether the statements on pages 16 to 18 reflect the group's compliance with those provisions of the Combined Code specified for our review by the Listing Authority, and we report if it does not. We are not required to form an opinion on the effectiveness of the group's corporate governance procedures or its internal controls.

We read other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## Basis of opinion

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

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

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and group as at 31 March 2000 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward  
*Chartered accountants and registered auditors*  
London

31 July 2000

## Three year record

	31 March 2000	31 March 1999	31 March 1998
	£000	£000	£000
Turnover	14,423	8,907	6,032
Operating (loss)/profit	(2,293)	627	906
Fixed assets	51,512	20,157	16,077
Net assets	32,352	14,587	14,384

## Shareholder information

### Analysis of shareholders

Number of shareholders: 5,706 (as at 31 July 2000).

### Shareholders range

	Shareholders	Shares
	%	%
1,000 and under	53.7	0.5
1,001 to 5,000	30.8	1.6
5,001 to 10,000	5.9	1.0
10,001 to 100,000	7.5	5.0
Over 100,000	2.1	91.9

### Held by

	Shareholders	Shares
	%	%
Banks	0.2	0.4
Insurance companies and pension funds	0.3	1.5
Nominee companies	11.9	21.7
Other corporate bodies	1.1	58.0
Individuals	86.5	18.4