

The directors present their annual report together with the audited financial statements for the nine months ended 31 December 2000.

Results and dividends

The results of the group for the period are set out on page 20. The directors do not recommend the payment of a dividend. The loss after taxation for the year was £6,207,000.

Business review

The main activity of the group has been that of operating Lingfield Park, Folkestone, Wolverhampton, Southwell, Royal Windsor and Worcester racecourses. In addition, the group has continued to invest in the development of its multi-platform gaming technology through its wholly-owned subsidiary, Arena Online Services Limited. In October 2000 the group announced the formation of a joint venture with British Sky Broadcasting (BSkyB) and Channel Four Television (Channel Four), named 'Go Racing', to acquire and exploit UK racing's media rights.

Directors and their interests

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

	Fully paid ordinary shares in the company	
	At 31 December 2000	At 31 March 2000
M E Pope	470,751	470,751
I R Penrose	100,000	100,000
I C Hogg (appointed 8 May 2001)	–	–
G T Parr	3,125,000	3,125,000
M J Barnes	137,500	137,500
A H Parker Bowles obe	–	–
R D Withers (appointed 8 May 2001)	–	–
R J Muddle (resigned 8 February 2001)	20,000,000	20,000,000

On 26 June 2001, M E Pope, I R Penrose and M J Barnes each acquired 33,333 shares in the company in relation to a placing and open offer.

Details of the directors currently in office are contained on page 13.

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

	At 26 June 2001	At 31 December 2000	At 31 March 2000	Exercise price	Exercisable between
	M E Pope	768,638	768,638	768,638	13p
	193,672	193,672	193,672	62p	26 January 2003 – 25 January 2010
	537,690	37,690	37,690	62p	26 January 2005 – 25 January 2010
	1,500,000	1,000,000	1,000,000		
I R Penrose	541,294	541,294	541,294	14.25p	3 August 2001 – 2 August 2008*
	458,706	458,706	458,706	62p	26 January 2003 – 25 January 2010
	1,200,000	–	–	62p	26 January 2005 – 25 January 2010
	2,200,000	1,000,000	1,000,000		
I C Hogg	548,386	548,386	548,386	62p	26 January 2003 – 25 January 2010
	1,376,614	451,614	451,614	62p	26 January 2005 – 25 January 2010
	1,925,000	1,000,000	1,000,000		
G T Parr	2,165,178	2,165,178	2,165,178	13p	18 June 2000 – 17 June 2007

* 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.

Subsequent to the accounting period 2,625,000 options at an exercise price of 62p were allocated to directors from the previously unallocated pool of 3 million options. The balance of the pool, representing 375,000 options at 62p, was also allocated to other employees. In addition to the above, and subsequent to the accounting period, a further 1,395,000 share options were issued to other employees at an exercise price of 105p.

The market price of Arena Leisure Plc ordinary shares at 31 December 2000 was 105p. High and low prices were 197.5p and 105p respectively over the period.

In accordance with the Articles of Association, I R Penrose and A H Parker Bowles 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 is to fix payment terms when agreeing business transactions, to ensure that suppliers are aware of such terms and normally abide by the agreed terms of payment. The number of days' purchases which were represented by year-end group trade creditors was 48 (company 60).

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 13 June 2001:

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

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.

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
Robert Mercer
Company secretary
26 June 2001

Registered office
8 Baker Street
London w1u 3ll

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

- ◆ non-executives are not appointed for specified periods (12-month rolling contracts);
- ◆ there is no formal structure of external training for board members, although the directors have relevant knowledge and experience for their roles.

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 an executive chairman, Martin Pope, four non-executive directors and two other executive directors of which Ian Penrose is the group managing director. All of the non-executive directors are considered by the board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement.

Biographies of the board members appear on page 13 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 managing director 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 managing director 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.

The company does not have a separate nomination committee, as the board considers itself to be small enough for appointments to be discussed by the board as a whole.

Audit Committee

The Audit Committee is scheduled to meet at least three times a year. It is composed of M J Barnes (committee chairman), A H Parker Bowles and M E Pope. Meetings are attended by senior representatives of the group's external auditors and appropriate members of senior management. Amongst other matters, the committee considers the company's annual and interim financial statements and any issues raised by the auditors in relation to the financial statements, financial systems and internal control within the group. R D Withers joined the Audit Committee following his appointment as a non-executive director on 8 May 2001.

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 33 and the directors' statement on going concern appears in the directors' report.

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.

Following publication of guidance for directors on internal control (The Turnbull Guidance), the board confirms its commitment to the management of risk within the organisation. Information provided by management, external auditors and industry sources provides the basis on which the board carries out its review, to identify, evaluate and manage any risk deemed significant to the achievement of the company's strategic objectives.

During the period under review the board has adopted an informal approach to risk management and has considered risk issues as part of its board and audit committee process. It is however the board's intention to establish during this current year a risk committee to identify, evaluate and report formally to the board on significant risk issues. The committee will be appointed from members of the board and senior management.

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.

The Listing Rules – the model code

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

The Remuneration Committee

The Remuneration Committee consists of M J Barnes (committee chairman), A H Parker Bowles and M E Pope. The committee determines the remuneration of all directors and of certain other senior executives within the company. R D Withers joined the Remuneration Committee following his appointment as a non-executive director on 8 May 2001.

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 and other bonuses where considered appropriate following appraisal of individual contribution made during the period;
- ◆ long-term incentives; and
- ◆ pension contributions into a defined contribution pension scheme.

It is the policy of the company to grant share options to directors and other key employees as a method of performance incentive in line with our objective to improve shareholder value. 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 nine months ended 31 December 2000

	Period ended 31 December 2000				Year ended 31 March 2000		
	Salary/fee	Annual bonus	Benefits	Total 2000	Pension contributions 2000	Total 2000	Pension contributions 2000
	£000	£000	£000	£000	£000	£000	£000
M E Pope	27	20	–	47	–	60	–
G T Parr	90	–	11	101	–	147	–
I R Penrose	83	40	8	131	7	118	6
R J Muddle	83	–	5	88	–	105	–
M J Barnes	13	–	–	13	–	20	–
A H Parker Bowles	13	–	–	13	–	11	–
Total	309	60	24	393	7	461	6

Contracts of service

All current directors have 12-month rolling contracts.

	Note	Period ended 31 December 2000 £000	Year ended 31 March 2000 £000
Turnover	2	15,700	14,423
Cost of sales		(11,486)	(9,635)
Gross profit		4,214	4,788
Administrative expenses			
Exceptional share option costs	3,18	386	(675)
Other	3	(9,636)	(6,631)
		(9,250)	(7,306)
Other operating income	4	–	225
Operating loss	6	(5,036)	(2,293)
Net interest payable and similar charges	7	(1,171)	(671)
Loss on ordinary activities before and after taxation, and retained	2,8,9,20	(6,207)	(2,964)
		Pence	Pence
Basic and diluted loss per share	10	(2.29)	(1.21)

The notes on pages 23 to 32 form part of these financial statements.

All recognised gains and losses are included above.

All amounts relate to continuing activities.

	Note	Group		Company	
		31 December 2000 £000	31 March 2000 £000	31 December 2000 £000	31 March 2000 £000
Fixed assets					
Intangible assets	11	5,801	6,032	–	–
Tangible assets	12	52,608	51,512	134	72
Investments	13	345	345	45,251	45,251
		58,754	57,889	45,385	45,323
Current assets					
Stock	14	167	163	–	–
Debtors – due within one year	15	2,911	2,672	214	239
– due in more than one year	15	–	–	8,395	7,471
		3,078	2,835	8,609	7,710
Cash at bank and in hand		1,478	1,160	–	149
		4,556	3,995	8,609	7,859
Creditors: amounts falling due within one year	16	(17,013)	(7,618)	(4,756)	(2,126)
Net current (liabilities)/assets		(12,457)	(3,623)	3,853	5,733
Total assets less current liabilities		46,297	54,266	49,238	51,056
Creditors: amounts falling due after more than one year	17	(19,863)	(21,239)	(16,000)	(17,130)
Provisions for liabilities and charges	18	(289)	(675)	(289)	–
Net assets		26,145	32,352	32,949	33,926
Capital and reserves					
Called up share capital	19	13,527	13,527	13,527	13,527
Share premium account	20	11,186	11,186	11,186	11,186
Merger reserve	20	5,417	5,417	5,417	5,417
Revaluation reserve	20	15	15	15	15
Special reserve	20	4,564	4,564	4,564	4,564
Profit and loss account	20	(8,564)	(2,357)	(1,760)	(783)
Shareholders' funds	21	26,145	32,352	32,949	33,926

All amounts within shareholders' funds are equity.

These financial statements were approved by the board of directors on 26 June 2001 and were signed on its behalf by:

I R Penrose
M E Pope
Directors

The notes on pages 23 to 32 form part of these financial statements.

	Note	Period ended 31 December 2000 £000	Year ended 31 March 2000 £000
Net cash outflow from operating activities	22	(3,354)	(730)
Returns on investments and servicing of finance			
Interest received		82	4
Interest paid		(1,253)	(675)
		(1,171)	(671)
Taxation			
Taxation paid		(28)	–
Capital expenditure			
Purchase of tangible fixed assets		(2,185)	(3,007)
Sale of tangible fixed assets		81	935
		(2,104)	(2,072)
Acquisitions and disposals			
Acquisition of subsidiaries		–	(24,181)
Net overdraft acquired with subsidiaries		–	(125)
		–	(24,306)
Net cash outflow before financing		(6,657)	(27,779)
Financing			
Inception of loans		1,020	18,125
Issue of ordinary shares		–	14,955
Expenses paid on issue of shares		–	(782)
Repayment of loans		(703)	(4,135)
		317	28,163
(Decrease)/increase in cash	23,24	(6,340)	384

The notes on pages 23 to 32 form part of these financial statements.

1 PRINCIPAL ACCOUNTING POLICIES

Basis of preparation and consolidation

The financial statements, which have been prepared on the basis of the historical cost convention in accordance with applicable accounting standards, include the financial statements of the company and all of its subsidiary undertakings made up to 31 December 2000, using the acquisition method of accounting.

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

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.

Development costs

Expenditure incurred in relation to the development of interactive and internet activities within Arena Online Services Limited are written off as incurred.

Financial instruments

Short-term debtors and creditors are not treated as financial assets or liabilities. The group does not hold or issue derivative financial instruments for trading purposes.

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	
	Period ended 31 December 2000	Year ended 31 March 2000	Period ended 31 December 2000	Year ended 31 March 2000	31 December 2000	31 March 2000
	£000	£000	£000	£000	£000	£000
Analysis by class of business						
Racecourse	15,290	13,771	1,669	1,642	29,060	29,167
Hotel – discontinued	–	652	–	235	923	923
Administration and internet development	410	–	(7,876)	(4,841)	(3,838)	2,262
	15,700	14,423	(6,207)	(2,964)	26,145	32,352

Pre-tax profit/(loss) is stated before management charges and income within each business class.

3 ADMINISTRATIVE EXPENSES

	Period ended 31 December 2000	Year ended 31 March 2000
	£000	£000
Administrative expenses include the following:		
Exceptional share option (credit)/charge (note 18)	(386)	675
Amortisation of goodwill arising on consolidation (note 11)	231	119

4 OTHER OPERATING INCOME

	Period ended 31 December 2000	Year ended 31 March 2000
	£000	£000
Rent receivable	–	81
Other income	–	144
	–	225

5 STAFF NUMBERS AND COSTS

The average number of persons employed by the group (including directors, part-time and casual staff) during the period, analysed by category, was as follows:

	Number of employees	
	Period ended 31 December 2000	Year ended 31 March 2000
Management and administration	173	109
Customer service	592	409
	765	518

The aggregate payroll costs of these persons were as follows:	Period ended	Year ended
	31 December 2000	31 March 2000
	£000	£000
Wages and salaries	3,764	2,962
Social security costs	264	224
Other pension costs	37	17
	4,065	3,203

Details of individual director's emoluments, share options and pensions are disclosed on pages 14 and 19 of this annual report. One director is a member of the group defined contribution pension scheme (31 March 2000: one).

6 OPERATING LOSS	Period ended	Year ended
	31 December 2000	31 March 2000
	£000	£000
Loss on ordinary activities before taxation is stated after charging/(crediting):		
Exceptional share option (credit)/costs (note 18)	(386)	675
Amortisation of goodwill	231	119
Loss/(profit) on sale of tangible fixed assets	4	(91)
Auditors' remuneration and expenses – audit services (including £32,000 in respect of the company (for the year ended 31 March 2000: £20,000))	120	100
Auditors' remuneration and expenses – non-audit services	35	65
Depreciation	1,004	808

7 NET INTEREST PAYABLE	Period ended 31 December 2000	Year ended 31 March 2000
	£000	£000
Bank loans and overdrafts	1,253	675
Bank interest receivable	(82)	(4)
	1,171	671

8 TAXATION

There is no tax charge due to the availability of prior year trading losses. There are £8 million of tax losses available to be utilised in future years, the benefit of which has not been provided for.

9 RESULT FOR THE PERIOD

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

The group results for the period include a loss of £977,000 (year to 31 March 2000: loss of £1,014,000) which is dealt with in the financial statements of the company.

10 LOSS PER SHARE

The calculation of the basic loss per share is based on the loss after tax of £6,207,000 (31 March 2000: loss after tax of £2,964,000) and on 270,545,173 (31 March 2000: 244,290,884) ordinary shares, being the weighted average number of ordinary shares in issue. There are no dilutive potential ordinary shares in issue.

11 INTANGIBLE ASSETS

	Goodwill on consolidation
	£000
Cost:	
At 1 April 2000	6,151
At 31 December 2000	6,151
Amortisation:	
At 1 April 2000	119
Provision for year	231
At 31 December 2000	350
Net book value:	
At 31 December 2000	5,801
At 31 March 2000	6,032

12 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 2000	1,248	47,207	2,727	2,570	53,752
Additions	31	740	560	854	2,185
Disposals	–	(40)	(44)	(93)	(177)
At 31 December 2000	1,279	47,907	3,243	3,331	55,760
Depreciation:					
At 1 April 2000	–	350	1,125	765	2,240
Charged in year	19	224	342	419	1,004
On disposals	–	–	(34)	(58)	(92)
At 31 December 2000	19	574	1,433	1,126	3,152
Net book value:					
At 31 December 2000	1,260	47,333	1,810	2,205	52,608
At 31 March 2000	1,248	46,857	1,602	1,805	51,512

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 as at 31 December 2000 (31 March 2000: £700,000). 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 £36,779,000 (31 March 2000: £36,779,000).

Company

	Fixtures, fittings and motor vehicles £000
Cost:	
At 1 April 2000	92
Additions	101
Disposals	(13)
At 31 December 2000	180
Depreciation:	
At 1 April 2000	20
Charged in year	26
Disposals	–
At 31 December 2000	46
Net book value:	
At 31 December 2000	134
At 31 March 2000	72

13 INVESTMENTS (HELD AS FIXED ASSETS)

Unlisted investment

£000

Group

Cost and net book value:

At 31 March 2000 345

At 31 December 2000 345

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

Shares in group undertakings

£000

Company

Cost and net book value:

At 31 March 2000 45,251

At 31 December 2000 45,251

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
Attheraces plc	England	Dormant

* denotes indirect holdings

14 STOCK	Group		Company	
	31 December 2000	31 March 2000	31 December 2000	31 March 2000
	£000	£000	£000	£000
Consumable stock	16	14	–	–
Stock for resale	151	149	–	–
	167	163	–	–

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

15 DEBTORS	Group		Company	
	31 December 2000	31 March 2000	31 December 2000	31 March 2000
	£000	£000	£000	£000
Amounts falling due within one year				
Trade debtors	998	668	–	–
Other debtors	1,616	1,138	210	236
Prepayments	297	866	4	3
	2,911	2,672	214	239

Amounts falling due after more than one year

Amounts owed by subsidiary undertakings	–	–	8,395	7,471
	2,911	2,672	8,609	7,710

16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	Group		Company	
	31 December 2000	31 March 2000	31 December 2000	31 March 2000
	£000	£000	£000	£000
Bank loan (secured)	2,000	–	2,000	–
Bank overdraft (secured)	9,798	3,140	293	–
Trade creditors	2,262	1,602	249	181
Amounts due to subsidiary undertakings	–	–	1,237	1,481
Other creditors	405	517	–	3
Taxation and social security	273	176	17	–
Obligations under finance leases	3	23	–	3
Accruals	1,853	1,431	960	458
Other loans	419	729	–	–
	17,013	7,618	4,756	2,126

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.

17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	Group		Company	
	31 December 2000	31 March 2000	31 December 2000	31 March 2000
	£000	£000	£000	£000
Bank loan (secured)	16,000	17,130	16,000	17,130
Obligations under finance leases	–	3	–	–
Accruals and deferred income	2,917	2,917	–	–
Other loans	946	1,189	–	–
	19,863	21,239	16,000	17,130

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 December 2000 the group had committed unutilised bank facilities of £1,680,000 (for the year ended 31 March 2000: £2,890,000). 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 £419,000 is repayable within one year, £378,000 is repayable within one to two years and £568,000 is repayable within two to five years. The directors consider that the fair value of this loan at an interest rate of 7% is £1,270,000 (31 March 2000: £1,720,000).

Bank loans are repayable in instalments as follows:

	£000
Within two years	4,000
Three to to five years	6,000
Over five years	8,000
	18,000

18 PROVISION FOR LIABILITIES AND CHARGES

	Group £000	Company £000
Group and company		
At the beginning of period	675	–
Movement	(386)	289
At end of period	289	289

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 December 2000, and the price at which options were granted, multiplied by the number of options granted.

19 CALLED UP SHARE CAPITAL

31 December
2000 31 March 2000
£000 £000

Group and company**Authorised**

339,172,000 ordinary shares of 5p each (31 March 2000: 339,172,000) **16,959** 16,959

Allotted, called up and fully paid

270,545,173 ordinary shares of 5p each (31 March 2000: 270,545,173) **13,527** 13,527

Total share options in issue at 31 December 2000 were as follows:

	Number of ordinary shares	Exercise price	Period exercisable
(i) Under the Share Option Plan	209,533	14.25p	3 August 2001 – 2 August 2008
(ii) Under the Discretionary Share Option Scheme			
	2,933,816	13p	18 June 2000 – 17 June 2007
	331,761	14.25p	3 August 2001 – 2 August 2008
	1,912,860	62p	26 January 2003 – 25 January 2010
	3,602,208	62p	26 January 2005 – 25 January 2010
	8,780,645		
Total	8,990,178		

The above schedule is inclusive of a pool of 3,000,000 share options at 62p which were subsequently allocated to directors and other employees on 24 May 2001. In addition to the above on 25 May 2001 a further 1,395,000 share options were issued to employees other than directors at an exercise price of 105p.

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

At an extraordinary general meeting of the company held on 18 June 2001, the company's proposed investment in Go Racing received shareholder approval, and the company's authorised share capital was increased. On 26 June 2001, 90,181,724 ordinary shares of 5p were issued at 95p per share to fund the investment in Go Racing and to provide working capital.

20 RESERVES	Share premium account	Merger reserve	Revaluation reserve	Special reserves	Profit and loss account
	£000	£000	£000	£000	£000
Group					
At 1 April 2000	11,186	5,417	15	4,564	(2,357)
Loss for year	–	–	–	–	(6,207)
At 31 December 2000	11,186	5,417	15	4,564	(8,564)

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 December 2000 was £303,000 (31 March 2000: £303,000).

	Share premium account	Merger reserve	Revaluation reserve	Special reserves	Profit and loss account
	£000	£000	£000	£000	£000
Company					
At 1 April 2000	11,186	5,417	15	4,564	(783)
Loss for year	–	–	–	–	(977)
At 31 December 2000	11,186	5,417	15	4,564	(1,760)

21 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	Group		Company	
	Period ended 31 December 2000	Year ended 31 March 2000	Period ended 31 December 2000	Year ended 31 March 2000
	£000	£000	£000	£000
Retained loss for the financial period	(6,207)	(2,964)	(977)	(1,014)
New share capital subscribed (net of expenses)	–	20,729	–	20,729
	(6,207)	17,765	(977)	19,715
Opening shareholders' funds	32,352	14,587	33,926	14,211
Closing shareholders' funds	26,145	32,352	32,949	33,926

22 RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES	Period ended	Year ended
	31 December 2000	31 March 2000
	£000	£000
Operating loss	(5,036)	(2,293)
Depreciation charges	1,004	808
Amortisation of goodwill	231	119
Profit on disposal of tangible fixed assets	4	(91)
Increase in stocks	(4)	(50)
Increase in debtors	(239)	(108)
Increase in creditors	1,072	210
(Decrease)/increase in provisions	(386)	675
Net cash outflow from operating activities	(3,354)	(730)

23 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT	Period ended	Year ended
	31 December 2000	31 March 2000
	£000	£000
(Decrease)/increase in cash in the period	(6,340)	384
Cash inflow from increase in debt	(317)	(13,990)
Change in net debt arising from cash flows	(6,657)	(13,606)
Loans acquired on acquisition	–	(2,023)
Change in net debt during period	(6,657)	(15,629)
Opening net debt	(21,028)	(5,399)
Closing net debt	(27,685)	(21,028)

24 ANALYSIS OF NET DEBT	At 31 March 2000	Cash flow	At 31 December 2000
	£000	£000	£000
Cash at bank and in hand	1,160	318	1,478
Overdrafts	(3,140)	(6,658)	(9,798)
	(1,980)	(6,340)	(8,320)
Loans	(19,048)	(317)	(19,365)
Total	(21,028)	(6,657)	(27,685)

To the shareholders of Arena Leisure Plc

We have audited the financial statements on pages 20 to 32 which have been prepared under the accounting policies set out on page 23.

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 Financial Services 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 Rules, 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 December 2000 and of the loss of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward
Chartered accountants and registered auditors
London

26 June 2001

Notice is hereby given that the thirty-seventh annual general meeting of the company will be held in the auditorium of Deutsche Bank, Winchester House, 1 Great Winchester Street, London EC2N 2DB on Wednesday 22 August 2001 at 10.30am for the following purposes:

ORDINARY BUSINESS

- 1 To receive the directors' report and accounts for the period ended 31 December 2000 and the auditors' report on the accounts.
- 2 To re-appoint as a director I R Penrose who retires by rotation pursuant to the company's Articles of Association and who, being eligible, offers himself for re-election.
- 3 To re-appoint as a non-executive director A H Parker Bowles who retires by rotation pursuant to the company's Articles of Association and who, being eligible, offers himself for re-election.
- 4 To re-appoint as a director I C Hogg who was appointed as an executive director by the board of directors on 8 May 2001.
- 5 To re-appoint as a non-executive director R D Withers who was appointed as a director by the board of directors on 8 May 2001.
- 6 To re-appoint BDO Stoy Hayward as auditors of the company from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the company, in accordance with the provisions of the Companies Act 1985, and to authorise the directors to fix the auditors' remuneration.

SPECIAL BUSINESS

As special business to consider and, if thought fit, to pass the following resolutions of which resolution 7 will be proposed as an ordinary resolution and resolution 8 will be proposed as a special resolution.

Ordinary resolution

- 7 That the board of directors (the "Board") be and is hereby generally and unconditionally authorised to exercise all powers of the company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985 (the "Act")) up to an aggregate nominal amount of £5,951,993 provided that the authority hereby conferred shall expire 15 months after the passing of this resolution or on the conclusion of the annual general meeting of the company held in 2002, whichever first occurs, unless this authority is renewed, varied or revoked before such expiry by the company in general meeting, save that the company may at any time before such expiry make an offer or agreement which would or might require any relevant securities to be allotted after such expiry, and the Board may allot relevant securities in pursuance of such offer or agreement as if the authority hereby conferred had not expired.

Special resolution

- 8 That, subject to the passing of resolution 7 above, the Board be and is hereby empowered, pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94 of the Act) for cash, pursuant to the authority conferred by that resolution, as if Section 89(1) of the Act did not apply to any such allotment, provided that this power be limited to:-
 - a) the allotment of equity securities in connection with an offer by way of rights or any other offer on a pre-emptive basis in favour of holders of ordinary shares where the equity securities comprised in that offer are offered to the holders of ordinary shares on a fixed record date in proportion (as nearly as may be) to the respective numbers of such shares held by them on that date, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with any legal or practical problems under the laws of any overseas territory or the requirements of any regulatory body or any stock exchange in any territory or in relation fractional entitlements; and

- b) the allotment (other than pursuant to sub-paragraph (a) above) of equity securities having, in the case of relevant shares, a nominal amount, or in the case of other equity securities giving the right to subscribe for or convert into relevant shares having a nominal amount, not exceeding in aggregate the sum of £901,817 (representing approximately 5% of the issued share capital of the company at the date of the notice of meeting in which this resolution appears)

provided always that the power conferred by this resolution shall expire on the earlier of the date falling 15 months following the passing of this resolution and the date of the annual general meeting of the company held in 2002, save that the company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry, and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By order of the board

Robert Mercer

Company secretary

26 June 2001

Registered office

8 Baker Street

London W1U 3LL

Explanatory notes to resolutions 7 and 8

Resolution 7 is proposed as an ordinary resolution to renew the directors' authority to allot shares and other relevant securities up to an aggregate nominal amount of £5,951,993 (which represents 33% of the total issued ordinary share capital of the company at the date of this notice). The authority will last until next year's annual general meeting or 15 months after the passing of the resolution, whichever is the earlier. This is standard practice for many public companies. The directors have no present intention of exercising this authority. If shares are to be allotted under this authority and are to be paid for in cash, Section 89 (1) of the Companies Act 1985 requires that those shares are offered first to existing shareholders in proportion to the number of shares that they hold at that time. This is the statutory "pre-emption right of existing shareholders". There may be circumstances when it is in the interest of the company for the directors to be able to allot some of the shares for cash other than in

proportion to the holdings of existing shareholders.

Resolution 8, which is proposed as a special resolution, gives the directors authority to disapply the statutory pre-emption rights of existing shareholders. The resolution gives the directors the power to allot shares and other equity securities for cash other than in proportion to the holdings of existing shareholders up to a maximum nominal value of £901,817, representing approximately 5% of the company's issued ordinary share capital at the date of this notice, which is in accordance with the relevant guidelines for the company. The resolution also gives the directors the power to allot shares for cash in connection with a rights issue or any other offer on a pre-emptive basis in favour of holders of ordinary shares, subject to the exclusions and arrangements set down in the resolution. This disapplication of pre-emption rights will last until next year's annual general meeting or 15 months after the passing of the resolution, whichever is earlier.

Notes

A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the company.

A form of proxy is enclosed with this notice for your use in respect of the business set out above. To be effective, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed (or a notarially certified copy of such power or authority) must be lodged with the company's registrars not later than 48 hours before the time appointed for the meeting.

The company, pursuant to regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those ordinary shareholders registered in the register of members of the company as at 10.30am on Monday 20 August 2001, or in the event that the

meeting is adjourned, in such register 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at the relevant time. Changes to entries in the register of members after 10.30am on Monday 20 August 2001 or, in the event that the meeting is adjourned, in such register less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Copies of all the directors' service contracts are available for inspection at the company's registered office during normal business hours on business days from the date of this notice until the close of the meeting and will be available for inspection at the place of the meeting for 15 minutes before the meeting and during the meeting.

	9 months to 31 December 2000	Year to 31 March 2000	Year to 31 March 1999	13 months to 31 March 1998
		£000	£000	£000
Turnover	15,700	14,423	8,907	6,032
Operating (loss)/profit	(5,036)	(2,293)	627	906
Fixed assets	52,608	51,512	20,157	16,077
Net assets	26,145	32,352	14,587	14,384

Shareholder information

Analysis of shareholders

Number of shareholders: 6,036 (as at 13 June 2001).

Shareholders range

	Shareholders	Shares
	%	%
1,000 and under	55.1	0.6
1,001 to 5,000	31.3	1.7
5,001 to 10,000	5.5	1.0
10,001 to 100,000	6.3	4.3
Over 100,000	1.8	92.4

Held by

	Shareholders	Shares
	%	%
Banks	0.3	1.5
Insurance companies and pension funds	0.1	1.2
Nominee companies	10.3	29.9
Other corporate bodies	1.0	57.5
Individuals	88.3	9.9

