

Annual report 2001



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Turnover £000

98	£6,032
99	£8,907
00(a)	£14,423
00(b)	£15,700
01	£26,604

Net assets £000

98	£14,384
99	£14,587
00(a)	£32,352
00(b)	£26,145
01	£100,861

(a) Year to 31 March
(b) Nine months to 31 December

ARENA LEISURE PLC is a racecourse operator, gaming technology provider and media rights owner.

The company is one of the largest independent racecourse operators in the UK, staging over fifteen hundred races each year at its six racecourses. Approximately 20% of all British horseraces take place on an Arena racecourse.

Arena has an expanding technology division whose software is now at the heart of some of the most complex and exciting horseracing gaming systems, taking bets and streaming live races over the internet for major operators both in the UK and USA.

In June 2001 Arena also became a media rights owner and an integral member of the newly formed 'attheraces' partnership alongside the UK's leading terrestrial and satellite broadcasters, Channel 4 and BSkyB. attheraces secured the majority of media rights to British racing for a period of up to 10 years and Arena is a 33.3% shareholder in this dynamic new venture.

Chairman's statement

The year 2001 was a year of unprecedented change for the UK racing and betting industries

Introduction

I am pleased to announce our results for the twelve month period to 31 December 2001. It also gives me great pleasure to be making my first statement as Chairman of the group since taking over the role from Martin Pope in October 2001. Martin retired after eight years in the saddle, during which time he was widely admired, not least by me, for his clear thinking and wise leadership. He steered Arena through a period of great change and progress, dedicating the latter four years of hard work to turn Arena from a shell company into a company which is now playing a major role in the future of British racing. In addition to expressing the Board's gratitude, I would like to thank him personally for helping to ensure that the transition to a new Chairman was as smooth as it could possibly be.

The year 2001 was one of unprecedented change for the UK racing and betting industries, with the prolonged media rights transaction, introduction of tax-free betting, relaxation of advertising

restrictions and the publication of a positive Gambling Review Body's proposals aimed at modernising and consolidating existing regulations. It was also a year in which the foot and mouth outbreak had a significant effect on the racing industry. High on the list of strategic issues for the racing industry as a whole remains the question of future funding and how best to exploit its picture and data rights. Arena continues to play a vital role in these negotiations.

Overview of results

Last year we announced a change in the year-end from March to December and as a result we report to you today on the twelve months to 31 December 2001. The comparative figures in this document are for the nine months to 31 December 2000. Overall turnover was up to £26.6m (2000: £15.7m), with an increase in net assets to £100.9m (2000: £26.1m). Looking at the second half of 2001, we made an operating profit of £593,000 before our investment in *attheraces*, and our racecourses and technology division were profitable. All amounts invested in

technology developments have been written off on a prudent accounting basis. Loss overall for the year was £6.2m, the same level as for the nine months to end of 2000. Loss per ordinary share was 1.95p (2000: loss of 2.29p).

Management and staff

We have continued to review all operations and resources as your company has developed. A number of recommendations have been made to the Board; some already implemented include initiatives which affect the management of our six racecourses, *attheraces* and our technology division and improved internal and external communications. The changes to the Board as highlighted in our last annual report are starting to deliver positive improvements in all aspects of our business, and we are pleased with the increasing responsibilities that we are able to place upon our Chief Financial Officer, Robert Mercer.

We could not have delivered the achievements of last year without an extraordinary effort by our people.

They have been the lifeblood of the company and my colleagues on the Board and I would like to thank each and every one of them for their dedication and determination throughout 2001.

Post-balance sheet events

I was delighted to announce two further deals on 16 April, the first was a three season sponsorship deal with Littlewoods Bet Direct, owned by Sportech plc, for our three all weather racecourses, worth a minimum of £1m. The second was a three-year sponsorship deal with the Gala Group for the Royal Windsor Festival, which commences at £90,000 in year one rising to a potential total of £320,000 for the full term.

Dividend

It is your Board's intention not to pay a dividend for this financial period but to continue to reinvest in the medium term growth of the business in order to take advantage of Arena's strong position in the fields of horseracing, media rights and gaming technology.

Outlook

Looking forward, I would single out four key elements of our programme for 2002. Firstly, following the successful media rights deal last year, we will continue with our partners in *attheraces* to exploit maximum value from the media rights purchased, starting with the launch of the *attheraces* interactive television channel on Sky in May 2002. This will also ensure that our technology division continues as key developers of new platforms for *attheraces*.

Secondly, Arena will look into maximising potential from its current racecourse business taking advantage of the increase in horseracing's exposure to the general public as a result of *attheraces*' marketing activity.

Thirdly, with regards to the opportunities presented by the Government's Gambling Review proposals, following Sir Alan Budd's favourable report into gaming, we have commenced immediate investigations into redeveloping certain of our racecourses to include hotels,

casinos, gaming halls and other non-raceday facilities as appropriate. This will put us in the best possible position to take advantage of the proposed changes when they are expected to become law in 2003/4.

Finally, in conjunction with Scientific Games Corporation of the USA, our partners in 'Trackplay', we will continue to look for additional customers for our unique gaming technology.

The company continues to trade in line with our expectations. Our aims for the longer-term success of the company remain undiminished, and I look forward to the future with confidence.



Roger Withers
Chairman

Group managing director's review of operations

A significant element of our strategy was achieved with the successful conclusion to the *attheraces* media rights acquisition in June 2001

Racecourses Operating Profit £000

9 months to 31 Dec 2000

£1,663

31 December 2001

£2,064

Arena Leisure made significant progress in 2001 on several fronts. The successful transaction provided *attheraces* a dramatic start and demonstrated our determination to achieve results, which continues unabated.

All weather racecourse operations

Arena has made significant strides in taking the sport of all weather racing forward. We are particularly proud that following the laying of a polytrack racing surface at Lingfield Park in summer 2001 at a cost of £3m, we have witnessed a record number of entries for our races. Total prize money at Lingfield exceeded £2m during 2001 and we have received widespread acclaim from all aspects of the racing community at the introduction of what is now recognised as amongst the best racing surfaces in the world. In this context, we were delighted to introduce a new race, the Fosters International Trial Stakes, on 6 April 2002, which attracted probably the best quality field in the history of all weather racing in this country. Improvements have also been made to enhance our customers'

on-course televisual experience.

In addition to the new racing surface at Lingfield Park, we have also commenced initial work on detailed studies associated with the redevelopment of spectator and leisure facilities commensurate with the quality of the racing and location of the racecourse. We expect to be able to report further on this in due course. We were delighted to host the Surrey Open at the Lingfield Golf Club; with the event also programmed for 2002, this illustrates the improvements made in this area of our business. As part of our intention to realise value from surplus properties on the estate, we were pleased to dispose of one property in November for a net £700,000, and we anticipate further progress on property related issues over the next 12 months.

At Wolverhampton, we again concentrated on improving the racing surface, investing over £300,000, which followed similar levels of investment at Southwell in 2000. Other improvements at Wolverhampton and Southwell include improved stabling, and the renewal of parade and pre-parade

rings. Hotel occupancy levels and golf club memberships are at record levels. We look forward to building upon these.

We are delighted that after working closely with Littlewoods Bet Direct for the last two years, we have reached agreement for Littlewoods Bet Direct to sponsor 800 all weather races for three seasons through to 30 April 2004. This deal, unprecedented in the history of Arena, will contribute a minimum of £1m over this period. As our all weather racecourses race all year round this gives Littlewoods Bet Direct regular exposure in return for its sponsorship.

Together with Littlewoods Bet Direct, Arena created the first ever all weather championships for 2001-2002, in order to introduce a clear season for the sport. The championships ran from 13 November 2001 to 27 March 2002, with prizes for the national and regional trainers, stable staff and jockeys exceeding £100,000.

Turf only racecourse operations

Royal Windsor racecourse has proved to be an excellent acquisition for your company. We witnessed a 28% growth in attendance levels in 2001 compared to 2000, and continued to enjoy the benefits of staging the successful Monday evening racing fixtures throughout the summer. Improvements were made to the racing surface and a new owner's and trainer's enclosure was constructed. We were delighted that Windsor's head groundsman and his team won the Neil Wyatt Flat Racing Ground Staff Award for 2001, beating York into second place. In order to improve the customer focus of the racecourse, a new Royal Windsor Festival was created in 2001 and we are delighted to announce that we have secured a major sponsor, Gala Group, for this three-day event for the next three years 2002-2004. Gala will be paying £90,000 in year one, increasing to a total of £320,000 if the full term is served, making this the largest single sponsorship in the history of Royal Windsor racecourse. This follows our policy of creating a special and unique atmosphere at this racecourse.

Folkestone and Worcester racecourses continue to trade in line with expectations. Their racing surfaces are now in the best condition that they have been in for many years and both enjoy their own particular niche in their local communities.

During the year, we abandoned the policy of charging winning owners of races for trophies, a decision which was widely welcomed and brought us into line with the industry.

Catering

Since the year end, to improve standards for our customers and to maintain a consistency of quality across the company, we have formed a strategic partnership with the UK's leading sporting events caterer, Letheby & Christopher. Already contracted at our Royal Windsor racecourse, Letheby & Christopher has been appointed to provide its specialist catering services at our other five racecourses. The five year contract will cover both race day and non-race day activities. We are already beginning to witness the benefits of this arrangement.

Industry matters

Racing is going through a very important period of change. Against a positive backdrop of increasing attendances and additional media rights revenues, the industry is at present undergoing a challenging and important period. The principal issues concern the sale of picture and data rights to the bookmaking shops in the UK and Eire and the wide ranging inquiry launched by the Office of Fair Trading ('OFT') into the structure of the sport, and the role of the British Horseracing Board ('BHB') within it.

In respect of the regulatory environment, we would welcome initiatives that will facilitate a competitive environment for all, one in which closer contact and productive working relationships with all our customers is encouraged, and whereby the reputation and quality of what in our opinion is the world's best horseracing is enhanced.

Turning to the protracted negotiations with the bookmakers, we welcome the decision of the Government to introduce tax-free betting in the UK in October 2001 and its consequential increase of around 40% in betting shop turnover on horseracing.

The subsequent determination of the Forty First Levy on a gross betting profit basis estimates an increase in the Levy from £65m to between £90-£105m per year with an anticipated benefit to Arena of between £1.5-£2.4m.

Through the recently issued Government response following the Sir Alan Budd review, the Government is seeking to establish a regulatory framework which will be positive for gambling overall in the UK. Arena welcomes this development and we have initiated detailed research into the opportunities that this framework would present our racecourse operations in the areas of hotels, casinos and gaming halls. We will report further on this at the appropriate time.

attheraces

A significant element of our strategy was put into place with the successful conclusion to the *attheraces* media rights acquisition in June 2001. *attheraces*, owned equally by Arena, BSkyB and Channel 4, has acquired the exclusive worldwide rights to pictures and audio from forty nine racecourses in the UK, for a period of up to ten years, representing some 90% of off-course horserace betting turnover, and all the major racecourses in the UK, including Aintree, Ascot, Cheltenham, Goodwood and Newmarket.

Through a focused and cohesive exploitation strategy, *attheraces* will broadcast the pictures and audio of UK racing across all forms of distribution platform, including interactive digital television, internet, mobile devices, telephone, radio and retail premises, both in the UK and overseas, but excluding licensed betting offices in the UK and Ireland. Income to the consortium comes from two main sources; exploiting the media rights now owned as well as revenue from betting income. In addition to our share

of revenues resulting from being a consortium member, Arena also receives an additional 3% of all pari-mutuel betting turnover placed on any *attheraces* platform over the next ten years.

In terms of exploiting *attheraces*' media rights, we are pleased to report that a series of additional media rights deals have been concluded with terrestrial and satellite broadcasters, BBC Worldwide and fixed odds betting providers that are worth a minimum of £1.5m per annum. These deals mean that we have already secured 68% of the £22m rights payment due to the racing industry for 2002/3. Further rights deals are pending with overseas bookmakers, radio broadcasters and premium rate telephone service operators.

These transactions reflect the powerful commercial value of the media rights acquired by *attheraces* and demonstrate the attraction of international audiences to UK horseracing and gaming.

Income from betting to *attheraces* commenced immediately following

the launch of the *attheraces.co.uk* internet site on 11 December 2001. The launch was later than anticipated as a result of final integration testing with the UK Tote but turnover for the first 15 weeks of operation is in line with management's expectations at £570,000. To date there are a total of 21,000 registrations of which 16% are active bettors with an average bet size of approximately £7. We are pleased that the exploitation of media rights has exceeded management's expectations and we look forward to the launch of our primary UK platform, the *attheraces* television channel in May 2002 to further drive betting revenue.

The *attheraces* television channel will start broadcasting on Sky to nearly six million homes across the UK. This brings 200 times more potential viewers than were previously subscribing to watch racing programmes.

The channel broadcasts seven days a week for approximately 14 hours a day through Sky's family package, thereby reaching 96% of all Sky's subscribers.

**Technology Division
(Arena Online Services Ltd)**
Turnover £000

9 months to 31 December 2000

£410,000

31 December 2001

£3,650,000

By the end of May this Channel aims to have a full interactive facility, whereby viewers will be able to place a wide variety of bets from the comfort of their home through the television set via their remote control. This will make it the UK's first interactive betting television channel dedicated to horseracing. The technical innovations, led by Sky, are pioneering.

At the same time BSkyB and Channel 4 will re-title their own racing coverage as Sky *attheraces* and Channel 4 *attheraces*. Sky, which already carries racing on Sky Sports, has rights for 60 two-hour programmes a year for evening and Sunday racing whilst Channel 4 has scheduled coverage of almost 200 meetings. All of these will be broadcast simultaneously on *attheraces*, which will show the full line-up from each meeting. The BBC will be broadcasting from six racecourses, including the Grand National, the Derby and Royal Ascot, and these will also be featured on *attheraces*. This increased coverage and accessibility for racing presents an unprecedented opportunity to promote the sport to a larger audience through a wider choice of channels. At times where there

is no British racing, there will be opportunities to show overseas racing, and negotiations continue to secure premium overseas content.

Elsewhere in horseracing, agreement between the bookmakers and the sport's governing bodies has not yet been reached at the time of writing with regards to the sale of pictures and race information to betting shops. In the event that a deal is not concluded from 1 May 2002, the *attheraces* television channel will become the only platform in the UK where daily coverage of UK horseracing will be available.

Technology

Our technology division continues to have an important role to play on behalf of its key customer *attheraces*, setting the standards for interactive betting on horseracing on the internet, digital television and all future platforms.

The division has a minimum three-year technology and content support contract to *attheraces* and it is now profitable and cash flow positive. I am delighted that our decision to continue to invest

in developing our unique technology at the same time as securing racing's media rights has paid off. We also continue to work closely with Autotote Systems Incorporated ('Autotote'), a subsidiary of the NASDAQ listed Scientific Games Corporation of the USA to attract new customers for our proprietary 'Trackplay' gaming software.

Trackplay

Our 30% associate venture with Autotote has made significant progress in recent months. Trackplay software continues to be used by our first customer, Fair Grounds racecourse in Louisiana, New Orleans, where more than 500,000 pari-mutuel bets have now been transacted through its website *fgnetbet.com*. Current developments include new internet betting solutions with Fintoto in Finland and Magna Entertainment Corporation ('MEC') in the USA. MEC is a major North American horseracing and gaming group with nine racecourses and revenues in 2001 of US\$519m. They were one of only three companies permitted a licence in the state of California

to conduct Advance Deposit Wagering from January 2002. MEC handled 70% of the US\$13m wagered over the internet and by telephone in California from 25 January to 17 March 2002. Its internet wagers were handled by *xpressbet.com*, a Trackplay-based platform. Now in its fourth full month of operation, it continues to show good growth and we are delighted that a major racecourse and gaming company again chose to use our Trackplay software.

Trackplay's business model is aimed at securing an ongoing percentage of revenue from each bet placed on the system or per user, along with an up-front payment for any personalisation that the customer requires. We are confident of the future of this product within a \$100bn global horseracing gaming market, and are actively pursuing a number of enquiries.

Looking ahead

Arena recognises that the racing and gaming industries continue to go through a period of unprecedented change but we are delighted to have secured a pre-eminent position during 2001. We now have a great platform on which to build all elements of our business and are looking forward to further developing your company during 2002.



Ian Penrose
Group Managing Director

Financial review

Results summary

The results presented for the period under review are for the year to 31 December 2001. Comparative figures for the prior period reflect a nine-month trading period as a consequence of a change in the group's accounting reference date to 31 December. This change was introduced to align the company's financial year with the racing industry calendar.

Trading summary

The results of the group for the year to 31 December 2001 show an increase in turnover to £26,604,000 (nine months to 31 December 2000: £15,700,000). Turnover from racecourse operations increased to £22,954,000 (nine months to 31 December 2000: £15,290,000) and gaming technology (Arena Online Services Ltd) increased to £3,650,000 (nine months to December 2000: £410,000).

The group operating loss reduced by £3,257,000 to £1,779,000 for the year to 31 December 2001 (nine months to 31 December 2000:

£5,036,000). Results for the second half of 2001 reveal an operating profit of £593,000.

Operating profit (excluding group management charges) from our racecourse operations increased to £2,064,000 in the year to 31 December 2001 (nine months to 31 December 2000: £1,663,000). The operating loss (excluding group management charges) from our gaming technology business, Arena Online Services Ltd reduced by £3,478,000 to £1,692,000 (nine months to 31 December 2000: £5,170,000), the business having benefited from the commencement of a contract to provide technology and operational support for the *attheraces* media platforms. Arena Online Services Ltd contributed an operating profit (excluding management charges) of £253,000 in the second half of 2001.

Group central costs were £2,151,000 for the year to 31 December 2001 (nine months to 31 December 2000: £1,529,000).

Media rights

During the year the group received media rights payments from *attheraces* (net of professional fees) of £1.9m. The payments due to the group's racecourses from *attheraces* over the ten year period of the rights agreement, incorporate an up front premium of £3.5m within the first full year of the agreement, which commenced on 1 July 2001. It is the group's policy to release this premium over a ten year period, pro rata to future scheduled payments. At 31 December 2001 a total of £1,638,000 of the media rights income received was deferred to future periods.

Joint venture

The group's share of the operating loss of its 33.3% joint venture, *attheraces*, was £3,944,000 in the year to 31 December 2001 (nine months to 31 December 2000: Nil). The results for this period are in line with expectations. The *attheraces* website was launched towards the end of the financial year on 11 December 2001, and as a result, turnover for the period to 31 December

2001 does not include any material level of betting income.

Associates

The group's share of the operating loss of its 30% associated company 'Trackplay' was £308,000 in the year to 31 December 2001 (nine months to 31 December 2000: Nil). In accordance with UK accounting standards, the group has restated the accounts of Trackplay LLC, to write off all technology development costs as they are incurred, in line with the group's prudent accounting policy. The impact of this charge is to increase the group's share of the operating loss of Trackplay by £239,000.

Goodwill amortisation

Goodwill arising on consolidation in respect of the group's racecourse companies is amortised over a period of 20 years, and in respect of the group's joint venture *attheraces*, over a period of ten years, in line with the term of the media rights agreement. Goodwill amortisation in respect of the racecourse companies was £307,000 for the year to 31 December 2001 (nine months to 31 December 2000: £231,000) and £14,000 in respect of the joint venture (nine months to 31 December 2000: Nil).

Interest

Net group interest payable reduced by £1,031,000 to £140,000 in the year to 31 December 2001 (nine months to 31 December 2000: £1,171,000). This is principally due to significant cash inflows in respect of the group's equity fundraising in June 2001 and the receipt of media rights guarantee payments to racecourses. The group's share of net interest receivable in its joint venture *attheraces* was £14,000 (nine months to 31 December 2000: £ Nil).

Loss on ordinary activities after taxation and retained

Loss after tax for the year was £6,171,000 (nine months to 31 December 2000: £6,207,000). Basic loss per share was 1.95 pence (nine months to 31 December 2000: loss 2.29 pence).

Equity fundraising, blocked bank deposit and loans to *attheraces*

On 26 June 2001 the company issued 90,181,724 ordinary shares at 95 pence per share to fund its investment in *attheraces*, to refinance its indebtedness to the Bank of Scotland and to provide it with working capital. Total funds raised, net of expenses and cost of investment in *attheraces*, was £79m. £60m was transferred to a blocked bank deposit, restricted to provide funding of Arena's anticipated obligations to *attheraces* Holdings Ltd and its subsidiaries, and the balance was utilised to reduce the company's bank debt. Interest on the blocked deposit is payable to Arena Leisure Plc and is unrestricted. Since 26 June 2001 monies advanced to *attheraces* Holdings Ltd total £20.95m, of which £18.75m has been paid as part of a loan agreement to fund the initial interactive media guarantee payments to racecourses and a further £2.2m to fund Arena's share of the working capital requirements of the company. At 31 December 2001 the group held the remaining £39,050,000 on blocked deposit.

Treasury report

All bank borrowings and financial assets of the group are held 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. At 31 December 2001 the group had unutilised bank facilities of £4,479,000 (31 December 2000: £1,680,000). 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.

Net bank borrowings at 31 December 2001 totalled £10,521,000 (31 December 2000: £26,320,000), consisting of a £10m revolving credit loan facility (fully drawn at 31 December 2001) and a net bank overdraft of £521,000. Interest is charged on the bank overdraft at 1% over Bank of Scotland base rate. Interest on the revolving credit loan facility is charged at either 1% over Bank of Scotland base rate or 1% over LIBOR. The bank loan and overdraft are secured by a fixed and floating charge on the assets and undertakings of the group companies, and a first legal charge on all the freehold and leasehold properties owned by the group. This security is subject to deeds of priority and permitted charges in favour of the Horserace Betting Levy Board ("HBLB") in respect of security for interest free loans provided to the group, whose loans to the group total £936,000 at 31 December 2001 (31 December 2000: £1,365,000).

Net debt at 31 December 2001 including HBLB loans (excluding blocked bank deposit of £39,050,000) was £11,457,000 (31 December 2000: £27,685,000). This represents gearing of 11.4% on net assets of £100,861,000 (31 December 2000: 106% on net assets of £26,145,000).



Ian Penrose
Group Managing Director

Board of directors

Roger D Withers
Chairman

Aged 59, Roger has been involved at a senior level in the betting, gaming and leisure industries in the UK and internationally for 29 years with Ladbrokes (now Hilton), Bass and Littlewoods Leisure. Posts held include Managing Director of Coral and Chairman of Bass Leisure South Africa. He is a director of Sportech Plc and ATE Holdings Ltd. Roger also holds several other non-executive directorships in the leisure industry.

Ian R Penrose
Group Managing Director

Aged 37, Ian was appointed Group Managing Director in May 2001 having been responsible for the strategic direction of Arena, its racecourse acquisitions, media and interactive initiatives and the formation of the *attheraces* partnership with BSkyB and Channel 4. A chartered accountant, Ian joined Arena as the Group Finance Director in August 1998, having gained a wealth of commercial experience across a wide range of leisure, media, sport and other businesses.

Ian C Hogg
Director of Gaming Systems

Aged 39, Ian joined Arena in December 1997 to establish Arena Online Services Ltd. He has been instrumental in the development of the interactive system that is at the heart of *attheraces* and also the Trackplay venture with Scientific Games Inc of the USA. Prior to joining Arena, Ian ran his own telecommunications and technology businesses.

Roger Withers

Ian Penrose

Ian Hogg

M John Barnes
Non Executive Director

Aged 53, John has 32 years experience in Europe and the USA in consumer orientated businesses. Between 1988 and 2000 he was Chairman of Harry Ramsden's Plc. He is a non-executive director of Caffè Nero and Yates Group Plc. He is Chairman of Zoo Digital Group Plc, Galaxy 105FM (Yorkshire) and La Tasca Restaurants Ltd.

Brigadier Andrew H Parker Bowles OBE
Non Executive Director

Aged 62, Andrew has extensive interests in the racing industry. He was a director of the British Horseracing Board from 1997 to 2000, a member of the Jockey Club since 1982 and for four years was the Jockey Club Steward responsible for all 59 racecourses. An owner, rider and breeder of racehorses, he was a director of United Racecourses from 1995 to 1999, a director of R.A.M. Racing Leisure Limited from 1996 to 1999 and is a non-executive director of two other companies. Andrew joined Arena in September 1999.

Graham T Parr
Non Executive Director

Aged 52, Graham was Arena's Chief Executive from 1997 to 2001. Prior to this role, he was involved in the management buyout of Pontin's Holidays in 1987 and subsequent sale to Scottish and Newcastle plc, remaining managing director until 1995 of Holiday Club Pontin's. He is also on the executive committee of the North West Tourist Board. Between 1990 and 2000 he was a non-executive director of Harry Ramsden's Plc.

John Barnes

Andrew Parker Bowles

Graham Parr

Directors' report

Directors' report

The directors present their annual report together with the audited financial statements for the year ended 31 December 2001.

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 group operating loss before share of results of joint venture and associate companies was £1,779,000 (9 months to 31 December 2000 loss £5,036,000). The loss after tax for the year was £6,171,000 (9 months to 31 December 2000 loss £6,207,000)

Business review

The principle activities of the group during the year included the operation of Royal Windsor, Lingfield Park, Wolverhampton, Southwell, Worcester and Folkestone racecourses; the development and operation of gaming technology through its wholly owned subsidiary, Arena Online Services Ltd; the exploitation of racecourse media rights through a 33.3% shareholding in *attheraces*, a joint venture with British Sky Broadcasting (BSkyB) and Channel Four Television (Channel Four), and the international exploitation of gaming technology through a 30% share of Trackplay LLC, an associated company with Autotote Systems Inc, a subsidiary of Scientific Games Corporation.

Directors and their interests

The directors in office during the year to 31 December 2001 and subsequently, together with their beneficial interests in the company, were:

	Fully paid ordinary shares in the company	
	At 31 December 2001	At 31 December 2000
R D Withers (appointed 8 May 2001)	20,000	–
I R Penrose	133,333	100,000
I C Hogg (appointed 8 May 2001)	10,000	–
G T Parr	3,135,000	3,125,000
M J Barnes	170,833	137,500
A H Parker Bowles OBE	10,000	–

R D Withers and I C Hogg did not hold any shares in the company on appointment at 8 May 2001.

M E Pope resigned as a director on 30 October 2001 and R J Muddle resigned as a director on 8 February 2001.

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 15 April 2002	At 31 December 2001	At 31 December 2000	Exercise Price	Exercisable between
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	1,200,000	–	62p	26 January 2005 – 25 January 2010
	2,200,000	2,200,000	1,000,000		
I C Hogg	548,386	548,386	548,386	62p	26 January 2003 – 25 January 2010
	1,376,614	1,376,614	451,614	62p	26 January 2005 – 25 January 2010
	1,925,000	1,925,000	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.

On 24 May 2001 2,625,000 options at an exercise price of 62p were allocated to directors from the previously unallocated pool of 3 million options. The options were allocated as follows: I R Penrose 1,200,000; I C Hogg 925,000 and M E Pope 500,000. The remainder of the pool representing 375,000 options at an exercise price of 62p, were allocated to other employees. In addition to the above, on 25 May 2001 a further 1,395,000 share options were granted to other employees at an exercise price of 105p.

No share options were exercised in the year.

The market price of Arena Leisure Plc ordinary shares at 31 December 2001 was 39.25p. High and low prices were 116p and 35.5p respectively over the period.

In accordance with the Articles of Association, G T Parr 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 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 45 (company 40).

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 have been made 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 15 April 2002:

	Ordinary shares of 5p	% of issued share capital
Guild Ventures	127,663,217	35.4
Rumney Manor Ltd	22,000,000	6.1
Uberior Investments Plc	18,647,003	5.2

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.

Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

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 FCMA
Company secretary
15 April 2002

Registered Office
1 Hay Hill
Berkeley Square
London W1J 6DH

Corporate governance

There is commitment to high standards of corporate governance throughout the group. The board confirms that throughout the year ended 31 December 2001 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).

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 non executive chairman, Roger Withers, three non-executive directors and two 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 twelve 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.

Nomination Committee

The members of the Nomination Committee are M J Barnes (Chairman), R D Withers, G T Parr and A Parker Bowles. The committee meets as required but not less than once a year. Its responsibilities include reviewing the board structure, size and composition, nominating candidates to the board to fill board vacancies when they arise, and recommending directors who are retiring by rotation to be put forward for re-election. The committee also ensures that all board appointees undergo training as appropriate.

Audit Committee

The Audit Committee is scheduled to meet at least three times a year. It is composed of R D Withers (Chairman), A H Parker Bowles, G T Parr and M J Barnes. 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. 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 appointed Andrew Parker Bowles as chairman of the group's Risk Committee.

The committee is appointed from members of the board and senior management. Its role is to identify, evaluate and report formally to the board on significant risk issues.

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.

Three of the directors of the Group are on the board of the Group's joint venture, *attheraces*. At least one of the Group's directors will attend all significant meetings of the joint venture, where they will use their influence to ensure that the highest standards of internal control are maintained.

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 (Chairman), A H Parker Bowles, G T Parr and R D Withers. The committee determines the remuneration of all directors and of certain other senior executives within the company.

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 year ended 31 December 2001

	Year ended 31 December 2001					Period ended 31 December 2000	
	Salary/fee £000	Bonus ⁽ⁱ⁾ £000	Benefits £000	Total 2001 £000	Pension contributions 2001	Total 2000 £000	Pension Contributions 2000 £000
R D Withers	15	–	–	15	–	–	–
I R Penrose	140	100	11	251	11	131	7
I C Hogg	120	80	12	212	9	–	–
M J Barnes	20	–	–	20	–	13	–
A H Parker Bowles	20	–	–	20	–	13	–
G T Parr	10	–	17	27	–	101	–
M E Pope ⁽ⁱⁱ⁾	50	50	–	100	–	47	–
R J Muddle ⁽ⁱⁱⁱ⁾	27	–	1	28	–	88	–
	402	230	41	673	20	393	7

⁽ⁱ⁾ Bonus paid in respect of the *attheraces* media rights transaction.

⁽ⁱⁱ⁾ M E Pope was part time executive chairman of the group through to his retirement on 30 October 2001. In addition to his emoluments shown above, Mr Pope was paid £30,000 as compensation for loss of office following his resignation on 30 October 2001.

⁽ⁱⁱⁱ⁾ R J Muddle was an executive director of the group through to his resignation on 8 February 2001. In addition to his emoluments shown above, Mr Muddle was paid £30,000 as compensation for loss of office and £92,000 in respect of the termination of his service agreement with the company.

Contracts of service

All current directors have 12-month rolling contracts.

Consolidated profit and loss account for the year to 31 December 2001

		Year ended 31 December 2001		9 Months ended 31 December 2000	
	Note	Group £000	Interest in joint venture £000	Total £000	Group £000
Turnover	2	26,604	3,265	29,869	15,700
Cost of Sales		(19,852)	(5,233)	(25,085)	(11,486)
Gross profit/(loss)		6,752	(1,968)	4,784	4,214
Administrative expenses	3	(8,531)	(1,976)	(10,507)	(9,250)
EBITDA		6	(3,941)	(3,935)	(3,801)
Depreciation		(1,478)	(3)	(1,481)	(1,004)
Amortisation		(307)	-	(307)	(231)
Operating loss	5	(1,779)	(3,944)	(5,723)	(5,036)
Share of operating loss in Joint venture	6	(3,944)			-
Associate	7	(308)			-
Goodwill amortisation in respect of joint venture	8	(14)			-
Total operating loss: Group and share of joint ventures and associates		(6,045)			(5,036)
Interest receivable	9	1,295			82
Interest Payable	9	(1,421)			(1,253)
Loss on ordinary activities before and after taxation and retained	2,10,11,23	(6,171)			(6,207)
Basic and diluted loss per share	12	Pence (1.95)			Pence (2.29)

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.

Balance sheets at 31 December 2001

	Note	Group £000	2001 Interest in joint venture £000	Total £000	2000 Group £000	2001 Company £000	2000 Company £000
Fixed Assets							
Intangible assets	13	5,494	-	5,494	5,801	-	-
Tangible assets	14	54,531	120	54,651	52,608	120	134
Investments							
- in associate	15	325	-	325	-	-	-
- other	15	345	-	345	345	48,144	45,251
		670	-	670	345	48,144	45,251
		60,695	120	60,815	58,754	48,264	45,385
Current Assets							
Stock	16	146	-	146	167	-	-
Debtors – due within one year	17	2,490	2,291	4,781	2,911	169	214
Debtors – due in more than one year	17	20,950	3,436	24,386	-	41,970	8,395
		23,440	5,727	29,167	2,911	42,139	8,609
Blocked Bank Deposit	21	39,050	-	39,050	-	39,050	-
Cash in bank and in hand		4,535	1,214	5,749	1,478	-	-
		43,585	1,214	44,799	1,478	39,050	-
		67,171	6,941	74,112	4,556	81,189	8,609
Creditors: amounts falling due within one year	18	(11,836)	(2,540)	(14,376)	(17,013)	(5,450)	(4,756)
Net current assets/(liabilities)		55,335	4,401	59,736	(12,457)	75,739	3,853
Total assets less current liabilities		116,030	4,521	120,551	46,297	124,003	49,238
Creditors: amounts falling due after one year							
Share of net liabilities of joint venture	15	(3,929)	3,929	-	-	-	-
Goodwill in respect of joint venture	15	2,245	-	2,245	-	-	-
		(1,684)	3,929	2,245	-	-	-
Other		(13,485)	(8,450)	(21,935)	(19,863)	(10,000)	(16,000)
	19	(15,169)	(4,521)	(19,690)	(19,863)	(10,000)	(16,000)
Provisions for liabilities and charges	20	-	-	-	(289)	-	(289)
Net assets		100,861	-	100,861	26,145	114,003	32,949
Capital & reserves							
Called up share capital	22	18,036		18,036	13,527	18,036	13,527
Share premium account	23	87,564		87,564	11,186	87,564	11,186
Merger reserve	23	5,417		5,417	5,417	5,417	5,417
Revaluation reserve	23	15		15	15	15	15
Special reserve	23	4,564		4,564	4,564	4,564	4,564
Profit & loss account	23	(14,735)		(14,735)	(8,564)	(1,593)	(1,760)
Shareholders Funds	24	100,861		100,861	26,145	114,003	32,949

All amounts within shareholders' funds are equity.
These financial statements were approved by the board of directors on 15 April 2002 and were signed on its behalf by:

I R Penrose

R D Withers

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

Group cash flow statement for the year ended 31 December 2001

	Note	Year ended 31 December 2001 £000	Period ended 31 December 2000 £000
Net cash inflow/(outflow) from operating activities	25	1,434	(3,354)
Returns on investment and servicing of finance			
Interest received		1,280	82
Interest paid		(1,420)	(1,253)
		(140)	(1,171)
Taxation			
Taxation paid		–	(28)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(4,184)	(2,185)
Sale of tangible fixed assets		798	81
Loans to joint venture		(20,950)	–
		(24,336)	(2,104)
Acquisitions and disposals			
Investment in joint venture		(2,160)	–
Investment in associate		(407)	–
		(2,567)	–
Net cash outflow before financing		(25,609)	(6,657)
Management of liquid resources			
		(39,050)	–
Financing			
Inception of Loans		10,000	1,020
Issue of ordinary shares		85,672	–
Expenses paid on issue of shares		(4,785)	–
Repayment of loans		(18,429)	(703)
		72,458	317
Increase/(decrease) in cash	26, 27	7,799	(6,340)

Notes to the Accounts

1 Principal accounting policies

Basis of preparation and consolidation

The financial statements, which have been prepared on the basis of the historic 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 2001, using the acquisition method of accounting. Joint venture and associated companies have been included in the financial statements in accordance with FRS9.

Interests in joint ventures

Joint ventures are entities in which the group holds a long-term interest and shares control under a contractual arrangement. Investments in joint ventures are dealt with by the gross equity method of accounting. Provision is made within creditors for the group's share of net liabilities of the joint venture.

Interests in associated undertakings

Associated undertakings are entities in which the group holds a long-term minority interest, but over which it is in a position to exert a significant influence. The accounts include the relevant proportion of the results of associated undertakings. In the consolidated balance sheet, investments in associated undertakings are shown as the group's share of the underlying net assets under the heading Investment in associates. Interests in associated undertakings are accounted for on the equity method of accounting.

Overseas currencies

Profits, losses, assets and liabilities, denominated in foreign currencies, have been translated into sterling rates of exchange ruling at the balance sheet date. Foreign exchange adjustments, including those arising on consolidation are dealt with through reserves.

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.

Goodwill arising on consolidation of the *attheraces* joint venture is written off over ten years on a straight line basis.

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	Surface 5% to 10% per annum Base 2.5% to 3.3% per annum
Fixtures and fittings	5% to 25% per annum
Plant, machinery and equipment	5% to 25% per annum
Motor vehicles	25% per annum

During the year the directors revised the useful economic life of all weather tracks. Depreciation is now charged on a straight line basis at between 5% and 10% in respect of the racing surface, and between 2.5% and 3.3% in respect of the base. This compares to a previous rate of 5% per annum. The effect of this change has reduced the depreciation charge by £14,000.

FRS15 transitional rules were applied during the year ended 31 December 2000.

Stock

Stock is stated at the lower of cost and net realisable value.

Notes to the Accounts continued

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 is 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.

Liquid resources

Management of liquid resources for the purpose of the cash flow statement are defined as short term deposits.

2 Turnover, profit/(loss) before taxation and net assets

	Turnover		Pre-tax profit/(loss)		Net assets	
	Year ended 31 December 2001 £000	Period ended 31 December 2000 £000	Year ended 31 December 2001 £000	Period ended 31 December 2000 £000	31 December 2001 £000	31 December 2000 £000
Analysis by class of business						
Racecourse operations	22,954	15,290	2,143	1,669	29,514	29,060
Gaming technology	3,650	410	(2,133)	(5,399)	(10,174)	(7,942)
Administration	–	–	(1,943)	(2,477)	85,125	5,027
	26,604	15,700	(1,933)	(6,207)	104,465	26,145
Joint venture	–	–	(3,930)	–	(3,929)	–
Associate	–	–	(308)	–	325	–
	26,604	15,700	(6,171)	(6,207)	100,861	26,145

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

3 Administrative expenses

	Year ended 31 December 2001 £000	Period ended 31 December 2000 £000
Administrative expenses include the following: (credit)/charge		
Change in provision for employers national insurance (Note 20)	(289)	(386)
Amortisation of goodwill arising on consolidation (Note 13)	307	231

4 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:

	Year ended 31 December 2001	Period ended 31 December 2000
Management and administration	88	173
Customer service	593	592
	681	765

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2001 £000	Period ended 31 December 2000 £000
Wages and salaries	5,777	3,764
Social security costs	485	264
Other pension costs	100	37
	6,362	4,065

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 December 2000: one).

5 Operating loss

	Year ended 31 December 2001 £000	Period ended 31 December 2000 £000
Loss on ordinary activities before taxation is states after charging/(crediting):		
NI provision on share option gains (Note 20)	(289)	(386)
Amortisation of goodwill (Note 13)	307	231
(Profit)/loss on sale of tangible fixed assets	(15)	4
Auditors' remuneration and expenses – audit services (including £40,000 in respect of the company (for the period ended 31 December 2000: £32,000))	110	120
Auditors' remuneration and expenses – non-audit services	96	35
Depreciation	1,478	1,004

6 Share of operating loss in joint venture

	Year ended 31 December 2001 £000	Period ended 31 December 2000 £000
<i>attheraces</i>	(3,944)	–

This relates to the group's 33.3% equity share of the operating loss of *attheraces*.

7 Share of operating loss in associate

	Year ended 31 December 2001 £000	Period ended 31 December 2000 £000
Trackplay LLC	(308)	–

This relates to the group's 30% equity share of the operating loss of Trackplay LLC. In accordance with UK accounting standards, the accounts of Trackplay LLC have been restated to write off all development costs as they are incurred, in line with our group accounting policy. The impact of this is to increase the share of the operating loss in Trackplay by £239,000.

8 Goodwill amortisation in respect of joint venture

	Year ended 31 December 2001 £000	Period ended 31 December 2000 £000
Goodwill amortisation - <i>attheraces</i>	(14)	–

This relates to the amortisation of goodwill on consolidation of the *attheraces* joint venture.

9 Interest

	Year ended 31 December 2001 £000	Period ended 31 December 2000 £000
Interest receivable and similar income		
Bank interest receivable	1,278	82
Other interest receivable	2	–
Share of joint venture interest receivable	15	–
Total interest receivable	1,295	82
Interest payable and similar charges		
Interest payable on bank loans and overdrafts	(1,420)	(1,253)
Share of joint venture interest payable	(1)	–
Total interest payable	(1,421)	(1,253)

Notes to the Accounts continued

10 Taxation

There is no tax charge due to the availability of prior year trading losses. There are £13.4 million of tax losses available to be utilised in future years, the benefit of which has not been provided for.

11 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 profit of £167,000 (year to 31 December 2000: loss of £977,000) which is dealt with in the financial statements of the company.

12 Loss per share

The calculation of the basic loss per share is based on the loss after tax of £6,171,000 (31 December 2000: loss after tax of £6,207,000) and on 317,242,011 (31 December 2000: 270,545,173) ordinary shares, being the weighted average number of ordinary shares in issue. There are no dilutive potential ordinary shares in issue.

13 Intangible assets

	Racecourse Operations £000
Goodwill on consolidation	
Cost or valuation:	
At 1 January 2001	6,151
Additions	–
At 31 December 2001	6,151
Amortisation:	
At 1 January 2001	(350)
Provision for year	(307)
At 31 December 2001	(657)
Net Book Value at 31 December 2001	5,494
Net Book Value at 31 December 2000	5,801

14 Tangible assets

Group	Leasehold land and buildings £000	Freehold land, buildings & AWT £000	Plant and machinery £000	Fixtures, fittings and vehicles £000	Total £000
Cost or valuation:					
At 1 January 2001	1,279	47,907	3,243	3,331	55,760
Additions	113	3,233	385	453	4,184
Re-classification	–	(171)	3	168	–
Disposals	–	(701)	(357)	(176)	(1,234)
At 31 December 2001	1,392	50,268	3,274	3,776	58,710
Depreciation:					
At 1 January 2001	(19)	(574)	(1,433)	(1,126)	(3,152)
Charged in year	(25)	(336)	(486)	(631)	(1,478)
On disposals	–	–	324	127	451
At 31 December 2001	(44)	(910)	(1,595)	(1,630)	(4,179)
Net Book Value at 31 December 2001	1,348	49,358	1,679	2,146	54,531
Net Book Value at 31 December 2000	1,260	47,333	1,810	2,205	52,608

Included in freehold land and buildings at 31 December 2000 was an investment property held at £700,000 (Lingfield House). This was sold during the year. All leasehold land and buildings are long leasehold.

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 £36,012,000 (31 December 2000: £36,779,000).

Company

	Fixtures, fittings and motor vehicles £000
Cost:	
At 1 January 2001	180
Additions	51
Disposals	(24)
At 31 December 2001	207
Depreciation:	
At 1 January 2001	46
Charged in year	50
Disposals	(9)
At 31 December 2001	87
Net Book Value at 31 December 2001	120
Net Book Value at 31 December 2000	134

15 Investments

	Associate Undertakings £000	Unlisted Investment £000	Total £000	Joint Venture £000
Group				
Cost:				
At 1 January 2001	–	345	345	–
Additions	633	–	633	1
Goodwill	–	–	–	2,259
At 31 December 2001	633	345	978	2,260
Share of retained losses:				
At 1 January 2001	–	–	–	–
Retained loss for year	(308)	–	(308)	(3,930)
Amortisation charge	–	–	–	(14)
At 31 December 2001	(308)	–	(308)	(3,944)
Net Book Value at 31 December 2001	325	345	670	(1,684)
Net Book Value at 31 December 2000	–	345	345	–

The group's share of net liabilities of the joint venture are shown within creditors falling due after more than one year (note 19).

	Associate Undertakings £000	Unlisted Investment £000	Joint Venture £000	Racecourse Operations £000	Total £000
Company					
Cost:					
At 1 January 2001	–	345	–	44,906	45,251
Additions	633	–	2,260	–	2,893
At 31 December 2001	633	345	2,260	44,906	48,144

Notes to the Accounts 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
Windsor Racing Limited	England	Racecourse
Lingfield Park (1991) Limited	England	Racecourse
Dunstall Park Centre Limited*	England	Racecourse/Hotel
Southwell Racecourse Limited*	England	Racecourse
Folkestone Race Course Limited	England	Racecourse
Worcester Racecourse Limited**	England	Racecourse
Windsor Concessions Limited	England	Racecourse concession
Arena Online Services Limited	England	Gaming technology
RAM Racing Leisure Limited	England	Holding company
Windsor Racecourse Company Limited	England	Holding company
Arena Leisure Corporation	United States	Holding company
Farringford Hotel (Freshwater) Limited	England	Dormant
Foxberg Limited	England	Dormant
Rowanglen Limited*	England	Dormant
Dunstall Park Stables Limited*	England	Dormant
Southwell Race Company Limited*	England	Dormant

* denotes indirect holdings

** no minority interests have been recognised on the grounds of materiality.

Joint venture and associated companies in which the company owns an equity share are as follows:

	Equity Share	Classification	Country of registration	Principal activity
Attheraces Holdings Ltd	33.3%	Joint venture	England	Holding company
Trackplay LLC	30.0%	Associate	United States	Gaming technology

16 Stock

	Group		Company	
	31 December 2001	31 December 2000	31 December 2001	31 December 2000
	£000	£000	£000	£000
Consumable stock	–	16	–	–
Stock for resale	146	151	–	–
	146	167	–	–

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

17 Debtors

	Group		Company	
	31 December 2001	31 December 2000	31 December 2001	31 December 2000
	£000	£000	£000	£000
Amounts falling due within one year				
Trade debtors	1,106	998	–	–
Other debtors	937	1,616	110	210
Prepayments	447	297	59	4
	2,490	2,911	169	214
Amounts falling due after more than one year				
Amounts owed by subsidiary undertakings	–	–	21,020	8,395
Loans to joint venture (note 21)	20,950	–	20,950	–
	20,950	–	41,970	8,395

18 Creditors: amounts falling due within one year

	Group		Company	
	31 December 2001	31 December 2000	31 December 2001	31 December 2000
	£000	£000	£000	£000
Bank loan (secured)	–	(2,000)	–	(2,000)
Bank overdraft (secured)	(5,056)	(9,798)	(3,592)	(293)
Trade creditors	(1,979)	(2,262)	(271)	(249)
Amounts due to subsidiary undertakings	–	–	(984)	(1,237)
Other creditors	(474)	(405)	(75)	–
Taxation and social security	(433)	(273)	(57)	(17)
Obligations under finance leases	–	(3)	–	–
Accruals	(3,526)	(1,853)	(471)	(960)
Other loans	(368)	(419)	–	–
	(11,836)	(17,013)	(5,450)	(4,756)

The bank loan and overdraft are secured by a fixed and floating charge on the assets and undertakings of the group companies and a first legal charge on all the freehold properties owned by the group.

19 Creditors: Amounts falling due after more than one year

	Group		Company	
	31 December 2001	31 December 2000	31 December 2001	31 December 2000
	£000	£000	£000	£000
Bank loan (secured)	(10,000)	(16,000)	(10,000)	(16,000)
Share of joint venture liabilities	(1,684)	–	–	–
Accruals and deferred income	(2,917)	(2,917)	–	–
Other loans	(568)	(946)	–	–
	(15,169)	(19,863)	(10,000)	(16,000)

Short-term debtors and creditors are not treated as financial assets and liabilities in relation to FRS 13 disclosure requirements. Other FRS13 disclosures can be found in the group's treasury report on page 11.

Bank loans are repayable as follows:

	31 December 2001	31 December 2000
	£000	£000
One to two years	–	4,000
Three to five years	10,000	6,000
Over five years	–	8,000
	10,000	18,000

The outstanding bank loan at 31 December 2001 represents a revolving credit loan facility (fully drawn) with a review date of 15 April 2006. The loan is repayable in full on this date.

Other loans represent monies advanced (interest free) in sterling by the Horserace Betting Levy Board. Of the total balance £368,000 is repayable within one year (31 December 2000: £419,000), £296,000 is repayable within one to two years (31 December 2000: £378,000) and £272,000 is repayable within two to five years (31 December 2000: 568,000). The directors consider that the fair values of the loans are not materially different from the values stated above.

Notes to the Accounts continued

20 Provision for liabilities and charges

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

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 11.9% to the difference between the market price of shares at the year end date, and the price at which options were granted, multiplied by the number of options granted.

At 31 December 2001 the exercise price of options issued after 5 April 1999 was higher than the market price of the Company's shares, therefore no provision is required and the surplus has been released to the profit and loss account.

21 Blocked bank deposit

The blocked bank deposit is a restricted cash deposit to fund the group's obligations to *attheraces* Holdings Ltd and its subsidiaries, this being the joint venture controlled by Arena Leisure Plc, BSKyB and Channel Four Television. The monies are made available to fund payments to racecourses in connection with the acquisition of media rights and to fund Arena Leisure Plc's share of the *attheraces* working capital requirements. Interest on the bank deposit is payable to Arena Leisure Plc and is unrestricted.

The monies advanced to *attheraces* total £20.95 million, of which £18.75 million has been paid as part of a loan agreement, and £2.2 million to meet Arena's obligations to the working capital requirements of *attheraces*. The loan will be repaid (capital and interest) from a 3% share of the gross pari-mutuel betting revenue receivable by *attheraces*. The working capital element will be repaid when *attheraces* generates positive cash flows in excess of operating requirements.

22 Called up share capital

	31 December 2001 £000	31 December 2000 £000
Group and company		
Authorised		
429,353,724 ordinary shares of 5p each (31 December 2000: 339,172,000)	21,468	16,959
Allotted, called up and fully paid		
360,726,897 ordinary shares of 5p each (31 December 2000: 270,545,173)	18,036	13,527

Total share options in issue at 31 December 2001 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
	536,423	105p	25 May 2004 - 24 May 2011
	745,956		
(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
	858,577	105p	25 May 2004 - 24 May 2011
	9,639,222		
Total	10,385,178		

Details of directors 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 *attheraces* (formerly "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 *attheraces* and to provide working capital.

23 Reserves

	Share Premium account £000	Merger reserves £000	Revaluation reserves £000	Special reserve £000	Profit and loss account £000
Group					
At 1 January 2001	11,186	5,417	15	4,564	(8,564)
Issue of ordinary shares	81,163	–	–	–	–
Expenses paid on issue of shares	(4,785)	–	–	–	–
Loss for year	–	–	–	–	(6,171)
At 31 December 2001	87,564	5,417	15	4,564	(14,735)

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 2001 was £303,000 (31 December 2000: £303,000).

	Share Premium account £000	Merger reserves £000	Revaluation reserves £000	Special reserve £000	Profit and loss account £000
Company					
At 1 January 2001	11,186	5,417	15	4,564	(1,760)
Issue of ordinary shares	81,163	–	–	–	–
Expenses paid on issue of shares	(4,785)	–	–	–	–
Profit for year	–	–	–	–	167
At 31 December 2001	87,564	5,417	15	4,564	(1,593)

24 Reconciliation of movement in shareholders' funds

	Group		Company	
	31 December 2001 £000	31 December 2000 £000	31 December 2001 £000	31 December 2000 £000
Retained loss for the financial period	(6,171)	(6,207)	167	(977)
New share capital subscribed (net of expenses)	80,887	–	80,887	–
	74,716	(6,207)	81,054	(977)
Opening shareholders' funds	26,145	32,352	32,949	33,926
Closing shareholders' funds	100,861	26,145	114,003	32,949

25 Reconciliation of operating loss to net cash flow from operating activities

	Year ended 31 December 2001 £000	Period ended 31 December 2000 £000
Operating loss	(1,779)	(5,036)
Depreciation charges	1,478	1,004
Amortisation of goodwill	307	231
(Profit)/loss on disposal of tangible fixed assets	(15)	4
Decrease/(increase) in stocks	21	(4)
Decrease/(increase) in debtors	421	(239)
Increase in creditors	1,290	1,072
Decrease in provisions	(289)	(386)
Net cash inflow/(outflow) from operating activities	1,434	(3,354)

26 Reconciliation of net cash flow to movement in net debt

	Year ended 31 December 2001 £000	Period ended 31 December 2000 £000
Increase/(decrease) in cash in the period	7,799	(6,340)
Cash outflow/(inflow) from decrease/(increase) in debt	8,429	(317)
Change in net debt arising from cash flows	16,228	(6,657)
Opening net debt	(27,685)	(21,028)
Closing net debt	(11,457)	(27,685)
Blocked bank deposit	39,050	–
Net cash/(debt) including blocked bank deposit	27,593	(27,685)

27 Analysis of net debt

	At 31 December 2001 £000	Cash flow £000	At 31 December 2000 £000
Cash at bank and in hand	4,535	3,057	1,478
Overdrafts	(5,056)	4,742	(9,798)
	(521)	7,799	(8,320)
Loans - amounts falling due within one year	(368)	2,051	(2,419)
Loans - amounts falling due after more than one year	(10,568)	6,378	(16,946)
	(10,936)	8,429	(19,365)
Net debt	(11,457)	16,228	(27,685)
Blocked bank deposit	39,050	39,050	–
Net cash/(debt) including blocked bank deposit	27,593	55,278	(27,685)

28 Related Party Transactions

The following sales and year end balances relate to transactions with the group's joint venture and associated company during the year (9 Months to 31 December 2000: Nil).

	<i>attheraces</i>	Trackplay
Sales of services	3,243	254
Debtors	628	–

29 Post balance sheet events

As explained in the Chairman's statement, on 15 April 2002 the company entered into sponsorship agreements with Littlewoods Bet Direct and Gala Group.

Report of the independent auditors

To the shareholders of Arena Leisure Plc

We have audited the financial statements of Arena Leisure Plc for the year ended 31 December 2001 on pages 20 to 32 which have been prepared under the accounting policies set out on pages 23 to 24.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the Corporate governance statement reflects the group's compliance with the seven 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 consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' report, the Chairman's statement, the Group managing director's review of operations, the Financial review, the Corporate governance statement, and the Remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 the group at 31 December 2001 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, 15 April 2002

Notice of Meeting

Notice is hereby given that the thirty-eighth annual general meeting of the company will be held in the auditorium of Deutsche Bank, Winchester House, 1 Great Winchester Street, London on Monday 24 June 2002 at 10.30am for the following purposes:

Ordinary business

- 1 To receive the directors' report and accounts for the period ended 31 December 2001 and the auditors' report on the accounts.
- 2 To re-appoint as a director G T Parr 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 director M J Barnes 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 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 5 will be proposed as an ordinary resolution and resolution 6 will be proposed as a special resolution.

Ordinary resolution

- 5 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 £3,431,341 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 2003, 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

- 6 That, subject to the passing of resolution 5 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 to 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 2003, 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 FCMA
Company secretary
15 April 2002

Registered Office
1 Hay Hill
Berkeley Square
London W1J 6DH

Explanatory notes to resolutions 5 and 6

Resolution 5 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 £3,431,341 (which represents 19% 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 6, 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 41 of the Uncertificated Securities Regulations 2001, specifies that only those ordinary shareholders registered in the register of members of the company as at 10.30am on 22 June 2002, 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 22 June 2002 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.

Five year record

	Year to 31 December 2001 £000	9 months to 31 December 2000 £000	Year to 31 March 2000 £000	Year to 31 March 1999 £000	13 months to 31 March 1998 £000
Turnover	26,604	15,700	14,423	8,907	6,032
Operating (loss)/profit	(1,779)	(5,036)	(2,293)	627	906
Tangible fixed assets	54,531	52,608	51,512	20,157	16,077
Net assets	100,861	26,145	32,352	14,587	14,384

Shareholder information

Analysis of shareholders

Number of shareholders: 6,634 (as at 4 April 2002)

	Shareholders %	Shares %
1,000 and under	48.7	0.4
1,001 to 5,000	35.6	1.6
5,001 to 10,000	6.6	0.9
10,001 to 100,000	6.9	3.7
Over 100,000	2.2	93.4

Held by	Shareholders %	Shares %
Banks	0.3	2.5
Insurance companies and pension funds	0.1	0.1
Nominee companies	10.2	40.3
Other corporate bodies	1.5	49.0
Individuals	87.9	8.1

Head/Registered Office

1 Hay Hill
Berkeley Square
London W1J 6DH

Company Secretary

Robert Mercer FCMA

Registered number

857819

Auditors

BDO Stoy Hayward
8 Baker St
London W1U 3LL

Solicitors

Freshfields Bruckhaus Deringer
65 Fleet Street
London EC4Y 1HS

Nicholson Graham & Jones
110 Cannon Street
London EC4N 6AR

Principal bankers

Bank of Scotland
New Uberior House
11 Earl Grey Street
Edinburgh EH3 9BN

Stockbrokers and financial advisers

Deutsche Bank
Winchester House
1 Great Winchester Street
London EC2N 2DB

Registrar and transfer office

Capita IRG Plc
Balfour House
390/398 High Road
Ilford
Essex IG1 1NQ

Arena Leisure Plc
1 Hay Hill
Berkeley Square
London W1J 6DH

Telephone +44(0) 20 7495 2277
Facsimile +44(0) 20 7491 7174
Email contact@arenaleisureplc.com
Internet www.arenaleisureplc.com