

Directors' report

The directors present their annual report together with the audited financial statements for the year ended 31 December 2003.

Results and dividends

The results of the group for the period are set out on page 30. The directors do not recommend the payment of a dividend. The group operating profit for the year to 31 December 2003 before goodwill amortisation and exceptional items was £6,444,000 (year to 31 December 2002: £4,352,000). Group operating loss after goodwill amortisation and exceptional items was £19,581,000 (year to 31 December 2002: profit £4,044,000). The loss after tax for the year was £42,177,000 (year to 31 December 2002: loss £6,887,000).

Directors and their interests

The directors in office during the year to 31 December 2003 and subsequently, together with their interests in the company's shares (all of which were beneficial), were:

	Fully paid ordinary shares in the company	
	At 31 December 2003	At 31 December 2002
R D Withers	85,000	85,000
I R Penrose	182,033	182,033
I C Hogg	10,000	10,000
G T Parr	3,200,000	3,200,000
M J Barnes	170,833	170,833
A H Parker Bowles OBE	42,000	42,000

No change in the above interests has been notified to the company in the period from 31 December 2003 to 22 April 2004. The directors' holdings of options over ordinary shares in the company are noted in the Remuneration report on pages 27 to 29.

Business review

The principal 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 (Sky) and Channel Four Television (Channel 4), 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.

The market price of Arena Leisure Plc ordinary shares at 31 December 2003 was 40.5 pence. High and low prices were 48 pence and 18.25 pence respectively over the period.

In accordance with the Articles of Association, I R Penrose and I C Hogg retire by rotation and, being eligible, offer themselves for re-election. 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.

Market value of land

The directors are of the opinion that the market value of the group's interest in land is at least equal to the amount at which it is shown in the financial statements.

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 44 (company 38).

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 19 April 2004:

	Ordinary shares of 5p	% of issued share capital
Guild Ventures	127,663,217	35.3
Rumney Manor Ltd	22,000,000	6.1
Uberior Investments Plc	18,647,003	5.2
Deutsche Bank AG London (UK)	14,546,800	4.0

Post balance sheet events

On 29 March 2004, *attheraces* terminated its media rights contract with the Racecourse Association ('RCA') and the 49 racecourses party to the contract. The termination right arose under a provision in respect of betting margins from the Tote. *attheraces* is relying upon provisions in the contract to pursue rebates from the racecourses. As a consequence of the current position in which no contract between *attheraces* and the racecourses exists, the Group has made provisions against all sums attributable to *attheraces*. (Refer to Note 15.)

On 5 April 2004, the OFT adopted that the 49 racecourses party to the media rights contract with *attheraces* had infringed the Competition Act 1998 by collectively selling their media rights to *attheraces*, but imposed no penalty.

Arena Leisure Plc and Sky are currently in negotiation with the individual racecourses and racecourse groups to establish a new media rights agreement with a view to launching a new *attheraces* channel on the Sky digital platform in the near future.

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.

Directors' report continued

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.
- 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.

The directors are responsible for ensuring that the Directors' report and the other information included in the annual report is prepared in accordance with legislation in the United Kingdom. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Services Authority.

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. The work carried out by the auditors does not include consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the website.

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

On 31 December 2003, BDO Stoy Hayward, the company's auditors, transferred its business to BDO Stoy Hayward LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. Accordingly BDO Stoy Hayward resigned as auditors on that date and the directors appointed BDO Stoy Hayward LLP as its successor. A resolution to appoint BDO Stoy Hayward LLP as auditors will be proposed at the next annual general meeting.

By order of the board
Robert Mercer FCMA
Company Secretary
22 April 2004

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 2003 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.

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 21 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 12 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 Group 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 Group 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 any 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 pages 27 to 29. The members of the Remuneration Committee and the principal terms of reference of the Committee appear on page 27. 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 H 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 comprised 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.

Corporate governance continued

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 24 within the Directors' report and page 45 in the Report of the independent auditors and the directors' statement on going concern appears in the Directors' report.

The directors are responsible for the company's system of internal 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 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 the group's risk committee, internal management reporting, 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.

The group does not have an internal audit function. Following the necessary evaluation the board have concluded that due to the modest size of the group, a formal internal function is not required. Limited internal audit work is however carried out by the group's finance department.

During the period under review, the group has operated a risk review committee chaired by A H Parker Bowles. 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 35. The non-audit fees were paid in respect of tax advice 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.

Remuneration report

As well as complying with the provisions of the Combined Code as disclosed in the Corporate Governance Statement, the company has applied the principles relating to directors' remuneration as described below.

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 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 following comprised the principal elements of executive directors' remuneration:

- Basic salary and benefits.
- Annual bonus.
- Long-term incentives.
- Pension contributions into a defined contribution pension scheme.

It is group policy to ensure that there is a strong link between the level of directors' remuneration and performance of the group. Consequently only basic salaries and benefits are fixed. These fixed elements are recognised as being comparable with other companies. The Remuneration Committee recognises that the long-term success of the group is largely dependent on attracting executives of the highest quality. Therefore each director can significantly augment their salary through annual bonuses and long-term incentives. The group's contributions to a defined contribution pension scheme are based on basic salary levels only.

In addition to the statutory vote to be held on this Remuneration report, shareholders will be given the opportunity to ask the Chairman of the Remuneration Committee, M J Barnes, questions on any aspect of the group's remuneration policy.

The remuneration for non-executive directors consists of salary or fees for their services in connection with the board and board Committee meetings. They are not eligible for pension scheme membership. Their fees are determined by the executive directors who have regard to the level of salary or fees paid to the non-executives of similar companies.

Each element of remuneration payable to executive directors is discussed in more detail below.

Basic salary and benefits

Basic salaries for all executive directors are reviewed (but not necessarily increased) annually by the Committee. In determining the level of basic salaries, the Committee will give consideration to the government's published inflation statistics, salaries for comparable positions and any significant change in the role performed by the director. The Committee also makes use of external remuneration consultants.

In addition to basic salaries, each executive director is entitled to the following main benefits:

- 25 working days' holiday per annum in addition to normal bank and public holidays.
- A fully expensed company car or cash equivalent.
- Permanent health insurance for themselves, their spouse and children.

Annual bonus

In addition to basic salary, each executive director is entitled to an annual performance related bonus of up to 50% of basic salary. Specific performance criteria are set by the Committee at the commencement of the year following approval of the group's budgets and are primarily related to financial performance but will include an element of discretionary bonus for exceptional work during the year under review.

Remuneration report continued

Long-term incentives – share options

It is the policy of the group 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 Committee believes that share ownership and the granting of options strengthens the link between executives' personal interests and those of the shareholders. Specific performance criteria are linked to the exercise of options based upon growth in the share price. The grant of share options is at the discretion of the board. There were no new options granted in the year under review.

Pension policy

Each of the executive directors is entitled to participate in the group's defined contribution pension scheme to which the company will contribute 8% of basic salary. The pension scheme provides life insurance cover equal to four times basic salary.

Performance graph

The following graph compares the total return on the company's shares with that of the FTSE All-Share total return index over the last five years. The reasons the company has chosen this particular index are:

- It is considered the most likely benchmark by which the majority of shareholders would want to assess their investment in a public company.
- It is generally less volatile over time than other market indices.

Service contracts

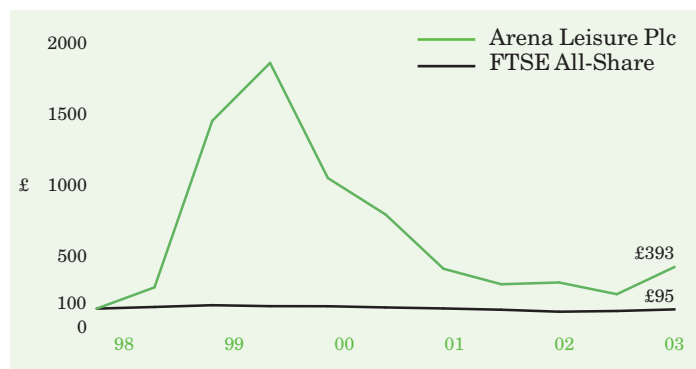
The Remuneration Committee has adopted the following policies concerning contracts and service periods which will be applied to any future appointment to the board:

- The notice period required by the company to terminate contracts is 12 months for executive directors.
- If the company terminates without notice the individual is entitled to a payment in lieu of notice of up to 12 months' pay.
- In the event of termination for reasons of misconduct, no payment in lieu of notice is payable.
- Executive directors will be employed under normal contracts of employment, but are required to give the company 12 months' notice of their intention to leave.
- Non-executive directors are required to give three months' notice under the terms of their service contracts. Details of each director's contract are shown below.

Director	Date of contract	Unexpired term	Notice period
R D Withers	1 April 2002	n/a	3 months
I R Penrose	3 August 1998	n/a	1 year
I C Hogg	21 December 1999	n/a	1 year
M J Barnes	22 May 1997	n/a	3 months
G T Parr	1 January 2001	n/a	3 months
A H Parker Bowles	8 September 1999	n/a	3 months

Total shareholder return

31 December 1998 – 31 December 2003



The total shareholder return graph shows the total return from £100 invested in Arena Leisure Plc over a five year period, compared to the FTSE All-Share return. Over the period the FTSE All-Share total return has fallen to £95 and Arena Leisure Plc total return has increased to £393.

Directors' remuneration

The following disclosures on directors' remuneration have been audited, as required by Part 3 of Schedule 7A of the Companies Act 1985.

The emoluments of the individual directors were as follows:

	Salary/fee £000	Bonus £000	Benefits £000	Total 2003 £000	Year ended 31 December 2003 Pension Contributions £000	Total 2002 £000	Year ended 31 December 2002 Pension Contributions £000
R D Withers	62	—	—	62	—	60	—
I R Penrose	175	52	16	243	13	239	13
I C Hogg	160	16	15	191	12	191	12
M J Barnes*	43	—	—	43	—	20	—
A H Parker Bowles*	43	—	—	43	—	20	—
G T Parr*	43	—	—	43	—	22	—
	526	68	31	625	25	552	25

* Salary payments made to the three non-executive directors noted above include additional payments made to compensate for increased duties undertaken in respect of *attheraces* and OFT related matters. The underlying base salary for each of the three non-executive directors was £25,000.

R D Withers is Chairman of the Audit Committee.

M J Barnes is Chairman of the Remuneration and Nomination Committees.

A H Parker Bowles is Chairman of the Group Risk Committee.

The directors' holdings of options over ordinary shares are as follows:

	At 31 December 2003	At 31 December 2002	Exercise price	Date from which exercisable	Expiry date
I R Penrose	541,294	541,294	14.25p	3 August 2001	2 August 2008*
	458,706	458,706	62p	25 January 2003	24 January 2010
	1,200,000	1,200,000	62p	24 May 2006	23 May 2011
	2,200,000	2,200,000			
I C Hogg	548,386	548,386	62p	25 January 2003	24 January 2010
	451,614	451,614	62p	25 January 2005	24 January 2010
	925,000	925,000	62p	24 May 2006	23 May 2011
	1,925,000	1,925,000			
G T Parr	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.

All performance criteria in respect of the above options have been met, with the exception of 1,200,000 options allocated to I R Penrose on 24 May 2001 and 925,000 options allocated to I C Hogg also on 24 May 2001. The share price performance target required to enable the exercise of these options has yet to be achieved. The 1,200,000 options issued to I R Penrose are exercisable if the mean closing mid-price of an ordinary share of 5 pence each over a continuous period of 30 days is at least 154 pence. The performance criteria applying to the 925,000 share options issued to I C Hogg are subject to the same performance criteria.

No options were granted during the year. The market price of the shares at 31 December 2003 was 40.5 pence. High and low prices were 48 pence and 18.25 pence respectively over the period.

M J Barnes

On behalf of the board

M J Barnes

Chairman, Remuneration Committee

22 April 2004

Consolidated profit and loss account for the year ended 31 December 2003

	Note	Before goodwill amortisation and exceptional items Group 2003 £000	Goodwill amortisation and exceptional items Group 2003 £000	Total Group 2003 £000	Total Group 2002 £000
Total turnover: group and share of joint venture turnover		44,207	–	44,207	39,528
Less: share of joint venture turnover		(9,905)	–	(9,905)	(6,853)
Group turnover	2	34,302	–	34,302	32,675
Cost of sales		(20,543)	–	(20,543)	(21,243)
Gross profit		13,759	–	13,759	11,432
Administrative expenses excluding exceptional items and goodwill amortisation	3	(7,315)	–	(7,315)	(7,080)
Exceptional items	5	–	(25,717)	(25,717)	–
Goodwill amortisation	5	–	(308)	(308)	(308)
Total administrative expenses		(7,315)	(26,025)	(33,340)	(7,388)
EBITDA		8,060	(25,717)	(17,657)	5,830
Depreciation		(1,616)	–	(1,616)	(1,478)
Goodwill amortisation		–	(308)	(308)	(308)
Group operating profit	5	6,444	(26,025)	(19,581)	4,044
Share of operating loss in					
Joint venture	6	(10,066)	(11,149)	(21,215)	(11,129)
Associate	7	(22)	–	(22)	(54)
Goodwill amortisation in respect of joint venture	8	–	(226)	(226)	(226)
Goodwill impairment in respect of joint venture	8, 15	–	(1,794)	(1,794)	–
Total operating loss : group and share of joint ventures and associates		(3,644)	(39,194)	(42,838)	(7,365)
Income from other fixed asset investments		307	–	307	–
Interest receivable	9	1,050	–	1,050	1,185
Interest payable	9	(496)	–	(496)	(707)
Loss on ordinary activities before taxation	2, 11	(2,783)	(39,194)	(41,977)	(6,887)
Tax on loss on ordinary activities	10	(200)	–	(200)	–
Loss on ordinary activities after taxation and transferred from reserves	22, 23	(2,983)	(39,194)	(42,177)	(6,887)
				Pence	Pence
Basic and diluted loss per share	12			(11.7)	(1.9)
Earnings per share before exceptional charges and losses relating to <i>attheraces</i>	12			1.9	1.2

The notes on pages 33 to 44 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 2003


	Note	2003 Group £000	2002 Group £000	2003 Company £000	2002 Company £000
Fixed assets					
Intangible assets	13	4,878	5,186	–	–
Tangible assets	14	55,834	54,824	45	57
Investments	– in associate	338	360	–	–
	– other	345	345	46,159	48,419
		683	705	46,159	48,419
		61,395	60,715	46,204	48,476
Current assets					
Stock	16	55	41	–	–
Debtors – due within one year	17	3,176	3,491	237	117
Debtors – due in more than one year	17	–	49,500	6,845	55,887
		3,176	52,991	7,082	56,004
Blocked bank deposit	20	1,365	10,500	1,365	10,500
Cash at bank and in hand		1,284	569	592	555
		2,649	11,069	1,957	11,055
		5,880	64,101	9,039	67,059
Creditors: amounts falling due within one year	18	(9,586)	(10,974)	(6,255)	(4,862)
Net current (liabilities)/assets		(3,706)	53,127	2,784	62,197
Total assets less current liabilities		57,689	113,842	48,988	110,673
Creditors: amounts falling due after one year					
Share of gross assets of joint venture	15	5,006	14,670	–	–
Share of gross liabilities of joint venture	15	(41,464)	(29,733)	–	–
		(36,458)	(15,063)	–	–
Arena Leisure Plc loans to joint venture	15	33,968	–	–	–
Goodwill in respect of joint venture	15	–	2,019	–	–
		(2,490)	(13,044)	–	–
Other		(3,302)	(6,724)	–	(3,000)
	19	(5,792)	(19,768)	–	(3,000)
Net assets		51,897	94,074	48,988	107,673
Capital & reserves					
Called up share capital	21	18,075	18,075	18,075	18,075
Share premium account	22	87,625	87,625	87,625	87,625
Merger reserve	22	5,417	5,417	5,417	5,417
Revaluation reserve	22	15	15	15	15
Profit & loss account	22	(59,235)	(17,058)	(62,144)	(3,459)
Shareholders' funds	23	51,897	94,074	48,988	107,673

All amounts within shareholders' funds are equity.

These financial statements were approved by the board of directors on 22 April 2004 and were signed on its behalf by:



I R Penrose



R D Withers

The notes on pages 33 to 44 form part of these financial statements.

Group cash flow statement for the year ended 31 December 2003

	Note	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Net cash inflow from operating activities	24	7,783	6,904
Returns on investment and servicing of finance			
Interest received		990	1,144
Interest paid		(257)	(661)
Dividends received		307	–
		1,040	483
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(2,689)	(2,365)
Sale of tangible fixed assets		130	632
Loans to joint venture		(9,135)	(28,550)
		(11,694)	(30,283)
Acquisitions and disposals			
Investment in associate		–	(89)
Net cash outflow before financing		(2,871)	(22,985)
Management of liquid resources – cash withdrawn from blocked bank deposit			
		9,135	28,550
Financing			
Inception of loans		–	900
Issue of ordinary shares		–	100
Repayment of loans		(3,476)	(7,548)
		(3,476)	(6,548)
Increase/(decrease) in cash	25, 26	2,788	(983)

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 2003, 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. The premium on goodwill is dealt with under the goodwill policy.

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

The result of the overseas associate is translated at the average rate of exchange during the year and the balance sheet is translated into sterling at the rate of exchange ruling on the balance sheet date. Exchange differences which arise from translating the profit and loss account at an average rate are taken to 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. Goodwill relating to the *attheraces* joint venture is written off over ten years on a straight line basis.

Impairment tests on the carrying value of goodwill are undertaken:

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

Prior to the adoption of FRS10 all positive goodwill was eliminated against reserves as a matter of accounting policy. Such goodwill remains eliminated against reserves and will be charged to the profit and loss account on the subsequent disposal of the business to which it relates.

Depreciation

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all tangible fixed assets, except for 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

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.

Turnover

Turnover represents the value of sales by group companies to third parties, all arising within the UK, excluding value added tax.

Notes to the accounts continued

1 Principal accounting policies continued

Media rights

During the year the company received income from the grant of its media rights to *attheraces*. The total income received by the company includes an upfront premium paid in the first full year of the contract which commenced on 1 July 2001. The company's policy is to release this premium over the ten year term of the contract and was applied in the preparation of the accounts to 31 December 2003. On 29 March 2004 the media rights contract was terminated by *attheraces*, deferred income at 31 December 2003 was retained in the balance sheet to be released over the term of the proposed new contract with *attheraces*.

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 for disclosure purposes. 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.

Deferred taxation

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation.

In accordance with FRS19, deferred tax is provided in respect of all timing differences that have originated, but not reversed, at the balance sheet date that may give rise to an obligation to pay more or less tax in the future. An asset is recognised where there is no uncertainty as to the transfer of future economic benefits. Deferred tax is measured on a non-discounted basis.

Pension costs

Contributions to the group's defined contribution pension scheme are charged to the profit and loss account in the year which they become payable.

2 Segmental information

	Racecourse operations		Gaming technology		Central costs		Total	
	2003 £000	2002 £000	2003 £000	2002 £000	2003 £000	2002 £000	2003 £000	2002 £000
Turnover	29,094	25,106	5,208	7,569	–	–	34,302	32,675
Segment profit/(loss)	7,021	5,094	1,438	1,419	(2,015)	(2,161)	6,444	4,352
Exceptional items	–	–	–	–	(25,717)	–	(25,717)	–
Goodwill amortisation	–	–	–	–	(308)	(308)	(308)	(308)
Operating (loss)/profit	7,021	5,094	1,438	1,419	(28,040)	(2,469)	(19,581)	4,044
Share of operating loss in:								
Joint venture							(21,215)	(11,129)
Associate							(22)	(54)
Goodwill amortisation in respect of joint venture							(226)	(226)
Goodwill impairment in respect of joint venture							(1,794)	–
Income from other fixed asset investments							307	–
Interest receivable							1,050	1,185
Interest payable							(496)	(707)
Loss on ordinary activities before tax							(41,977)	(6,887)
Segment net assets/(liabilities)	34,831	31,480	(5,847)	(7,538)	25,065	84,835	54,049	108,777
Joint venture							(2,490)	(15,063)
Associate							338	360
Group net assets							51,897	94,074

Operating (loss)/profit is stated before group management charges and income within each segment. Central costs consist principally of expenditure incurred in respect of the management, control and administration of the group. The main charges relate to directors' pay, other general administrative staff, public relations costs and provisions against loans to *attheraces*.

3 Administrative expenses

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Administrative expenses include the following charge		
Amortisation of goodwill arising on consolidation (Note 13)	308	308

4 Staff numbers and costs

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

	Year ended 31 December 2003	Year ended 31 December 2002
Management and administration	71	75
Customer service	129	145
	200	220

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Wages and salaries	5,262	5,154
Social security costs	549	501
Other pension costs	131	144
	5,942	5,799

The company employs casual staff to assist during race-days. The number of casual staff varies between 13 and 70 depending on the race-day. Casual staff are not included in the staff numbers or costs stated above. The aggregate payroll cost in respect of casual staff in 2003 was £626,000 (2002: £676,000).

Details of individual directors' emoluments, share options and pensions are disclosed on page 29 of this annual report. I R Penrose was a member of the group defined contribution pension scheme during the year ended 31 December 2003 and year ended 31 December 2002. The company also made a contribution of £15,000 to the personal pension scheme of I C Hogg (2002: £12,000).

Directors' remuneration

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Directors' emoluments	625	552
Company contributions to defined contribution pension schemes	25	25
	650	577

Further disclosures on the remuneration of each individual director are given in the Remuneration report, of which the information on page 29 has been audited.

5 Operating (loss)/profit

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Operating (loss)/profit is stated after charging/(crediting):		
Amortisation of goodwill (Note 13)	308	308
Profit on sale of tangible fixed assets	(67)	(38)
Auditors' remuneration and expenses – audit services (including £68,000 in respect of the company for the year ended 31 December 2003 (2002: £50,000))	132	112
Auditors' remuneration and expenses – non-audit services	94	100
Depreciation	1,616	1,478
Exceptional provision against loans to <i>attheraces</i>	24,667	–
Exceptional legal and professional costs in respect of OFT and <i>attheraces</i>	1,050	–

Tax relief of £17,906,000 is expected to be available for the company in respect of the exceptional costs, subject to agreement with the Inland Revenue.

Notes to the accounts continued

6 Share of operating loss in joint venture

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
<i>attheraces</i> – share of operating loss before exceptional items	(10,066)	(11,129)
– share of exceptional items	(11,149)	–
	(21,215)	(11,129)

This relates to the group's 33.3% equity share of the operating loss of *attheraces*. In accordance with UK accounting standards, the accounts of Attheraces Holdings Ltd have been restated to write off all development costs as they are incurred and to write back any amortisation charges in relation to these costs, in line with our group accounting policy. At 31 December 2003 *attheraces* incurred exceptional charges which principally include the write off of prepaid media rights costs and other industry related matters, along with a full impairment of interactive development costs.

7 Share of operating loss in associate

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Trackplay LLC	(22)	(54)

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, and to write back any amortisation charges in relation to these costs, in line with our group accounting policy. The impact of this is to reduce the share of the operating loss in Trackplay by £25,000 (2002: reduction in the share of the operating loss by £26,000).

8 Goodwill amortisation/impairment in respect of joint venture

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Goodwill amortisation – <i>attheraces</i>	(226)	(226)
Goodwill impairment – <i>attheraces</i>	(1,794)	–
	(2,020)	(226)

As a consequence of the termination of the *attheraces* media rights agreement, an impairment provision of £1,794,000 has been made to eliminate the carrying value of goodwill in respect of *attheraces*.

9 Interest

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Interest receivable and similar income		
Bank interest receivable	253	1,001
Other interest receivable	737	143
Share of joint venture interest receivable	60	41
Total interest receivable	1,050	1,185
Interest payable and similar charges		
Interest payable on bank loans and overdrafts	(132)	(661)
Share of joint venture interest payable	(239)	(46)
Other interest payable	(125)	–
Total interest payable	(496)	(707)

10 Taxation

UK corporation tax

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Current tax – adjustments in respect of prior years	200	–

Tax reconciliation

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Factors affecting tax charge for the period:		
Loss on ordinary activities before taxation	(41,977)	(6,887)
Loss on ordinary activities at standard rate of corporation tax in the UK of 30%	(12,593)	(2,066)
Effects of:		
Expenses not deductible for tax purposes	934	170
Income not assessable to tax	(256)	(48)
Short-term timing differences	(116)	(128)
Depreciation in excess of capital allowances	325	285
Group accounting policy alignment	(128)	(577)
Reinstatement of Arena Leisure Plc loans to <i>attheraces</i> on consolidation	(10,190)	–
Adjustment for joint ventures and associates	6,427	3,355
Tax losses unutilised/(utilised)	14,576	(991)
Tax losses extinguished	1,021	–
Adjustment to prior year tax charge	200	–
Current tax charge for the year	200	–

As at the year end, corporation tax losses (net of corporation tax timing differences) of £61,350,000 (2002: £8,660,000) were available for utilisation in future years subject to agreement with the Inland Revenue.

Unrecognised deferred tax

	At 31 December 2002 £000	Movement in the year £000	At 31 December 2003 £000
Accelerated capital allowances	1,262	31	1,293
Other short-term timing differences	201	(114)	87
Tax losses	3,743	14,662	18,405
Unrecognised deferred tax assets	5,206	14,579	19,785

The group has not provided for the deferred tax asset on losses, accelerated capital allowances and other short-term timing differences as it is prudent to assume that the group will not make sufficient profits in the short-term to absorb these amounts.

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 loss of £58,685,000 (year to 31 December 2002: loss of £6,430,000) 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 £42,177,000 (31 December 2002: loss after tax of £6,887,000) and on 361,495,535 (31 December 2002: 361,112,269) ordinary shares, being the weighted average number of ordinary shares in issue. There are no dilutive potential ordinary shares in issue.

Notes to the accounts continued

12 Loss per share continued

The calculation of earnings per share before exceptional charges and losses relating to attheraces of 1.9p (2002: 1.2p) is based on an adjusted profit of £6,775,000 (2002: £4,468,000). As follows:

	2003 £000	2002 £000
Loss on ordinary activities before taxation	(42,177)	(6,887)
Less:		
Exceptional provision against losses to <i>attheraces</i>	24,667	–
Exceptional legal and professional costs	1,050	–
Share of <i>attheraces</i> losses including exceptional charges	21,215	11,129
Goodwill amortisation and impairment in respect of <i>attheraces</i>	2,020	226
	6,775	4,468

13 Intangible assets

	Racecourse operations £000
Goodwill on consolidation	
At 1 January 2003 and at 31 December 2003	6,151
Amortisation:	
At 1 January 2003	(965)
Provision for year	(308)
At 31 December 2003	(1,273)
Net book value at 31 December 2003	4,878
Net book value at 31 December 2002	5,186

14 Tangible assets

Group	Long leasehold land and buildings £000	Freehold land, buildings & AWT £000	Plant and machinery £000	Fixtures, fittings and vehicles £000	Total £000
Cost:					
At 1 January 2003	1,376	52,832	5,427	5,389	65,024
Additions	43	1,721	491	434	2,689
Re-classification	(75)	–	79	(4)	–
Disposals	–	(11)	(897)	(665)	(1,573)
At 31 December 2003	1,344	54,542	5,100	5,154	66,140
Depreciation:					
At 1 January 2003	(91)	(2,668)	(3,934)	(3,507)	(10,200)
Charged in year	(26)	(452)	(465)	(673)	(1,616)
Disposals	–	–	893	617	1,510
At 31 December 2003	(117)	(3,120)	(3,506)	(3,563)	(10,306)
Net book value at 31 December 2003	1,227	51,422	1,594	1,591	55,834
Net book value at 31 December 2002	1,285	50,164	1,493	1,882	54,824

The brought forward cost and depreciation values have each been increased from the balances stated in the 2002 accounts to reflect the gross value of assets acquired by Arena Leisure Plc as part of the acquisition of the racecourses. This has no impact on the net book value of tangible fixed assets. The impact on the opening balances within each category are as follows:

	£000
Long leasehold land and buildings	22
Freehold land, buildings and all-weather track	1,350
Plant and machinery	2,004
Fixtures, fittings and vehicles	1,880
	5,256

14 Tangible assets continued

All leasehold land and buildings are long leasehold.

Tangible fixed assets include non-depreciable assets of £37,512,000 (31 December 2002: £36,320,000) included within freehold land and buildings and all-weather track.

Company	Fixtures, fittings and motor vehicles £000
Cost:	
At 1 January 2003	119
Additions	29
Disposals	(77)
At 31 December 2003	71
Depreciation:	
At 1 January 2003	(62)
Charged in year	(24)
Disposals	60
At 31 December 2003	(26)
Net book value at 31 December 2003	45
Net book value at 31 December 2002	57

15 Investments

Group	Associate undertaking £000	Unlisted investment £000	Total £000	<i>attheraces</i> joint venture £000
Cost				
At 31 December 2003 and 1 January 2003	722	345	1,067	2,260
Provisions:				
At 1 January 2003	–	–	–	–
Provided in the year	–	–	–	(2,260)
At 31 December 2003	–	–	–	(2,260)
Share of losses:				
At 1 January 2003	(362)	–	(362)	(15,304)
Loss for the year	(22)	–	(22)	(21,394)
Amortisation charge	–	–	–	(226)
Goodwill impairment adjustment	–	–	–	466
At 31 December 2003	(384)	–	(384)	(36,458)
Net book value at 31 December 2003	338	345	683	(36,458)
Net book value at 31 December 2002	360	345	705	(13,044)

At 31 December 2003, the company has made provisions of £58,635,000 in respect of loans to *attheraces*. On consolidation, the group has reinstated £33,968,000 which offsets the group's share of the *attheraces* loan liabilities payable to Arena Leisure Plc. This value is included within the group's share of gross liabilities of £41,464,000. See Joint venture note below.

The group's share of the joint venture loss for the year comprises the share of the loss before interest of £21,215,000 (2002: £11,129,000), interest receivable of £60,000 (2002: £41,000) and the group's share of interest payable of £239,000 (2002: £46,000).

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

Notes to the accounts continued

15 Investments continued

Goodwill on joint venture

Included within the group investments above is the goodwill on the *attheraces* joint venture as follows:

	<i>attheraces</i> joint venture £000
Goodwill:	
At 1 January 2003 and 31 December 2003	2,259
Amortisation and impairment provision:	
At 1 January 2003	240
Amortisation charged in year	226
Impairment provision	1,793
At 31 December 2003	2,259
Net book value at 31 December 2003	–
Net book value at 31 December 2002	2,019

	Associate undertaking £000	Unlisted investment £000	Joint venture £000	Subsidiaries £000	Total £000
Company					
Cost:					
At 1 January 2003	722	186	2,260	45,251	48,419
Impairment provision	–	–	(2,260)	–	(2,260)
At 31 December 2003	722	186	–	45,251	46,159

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 Racecourse 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

15 Investments continued

Joint venture

The group had the following aggregate interests in the *attheraces* joint venture:

	31 December 2003 £000	31 December 2002 £000
Share of assets		
Fixed assets	386	406
Current assets	4,620	14,264
	5,006	14,670
Share of liabilities		
Liabilities due within one year	(7,496)	(4,900)
Liabilities due after one year or more	(33,968)	(24,833)
	(41,464)	(29,733)
Share of net liabilities	(36,458)	(15,063)

There was no tax charge in the *attheraces* accounts in either year. Consequently no additional disclosures are required other than those already shown on the face of the profit and loss account in respect of the joint venture.

The results of the joint venture are based on the latest available accounts which have not been signed off as audited. However the directors do not anticipate any material adjustments.

16 Stock

	Group 31 December 2003 £000	Group 31 December 2002 £000	Company 31 December 2003 £000	Company 31 December 2002 £000
Consumable stock and stock for resale	55	41	-	-
	55	41	-	-

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

17 Debtors

	Group 31 December 2003 £000	Group 31 December 2002 £000	Company 31 December 2003 £000	Company 31 December 2002 £000
Amounts falling due within one year				
Trade debtors	1,772	2,289	9	8
Other debtors	729	628	54	35
Prepayments	675	574	174	74
	3,176	3,491	237	117
Amounts falling due after more than one year				
Amounts owed by subsidiary undertakings	-	-	6,845	6,387
Loans to joint venture (Note 15, 20)	-	49,500	-	49,500
	-	49,500	6,845	55,887

Notes to the accounts continued

18 Creditors: amounts falling due within one year

	Group 31 December 2003 £000	Group 31 December 2002 £000	Company 31 December 2003 £000	Company 31 December 2002 £000
Bank overdraft (secured)	–	(2,073)	–	–
Other loans	(422)	(476)	–	–
Trade creditors	(1,631)	(1,828)	(193)	(297)
Amounts due to subsidiary undertakings	–	–	(4,680)	(4,067)
Corporation tax	(200)	–	–	–
Other taxation and social security	(442)	(439)	(116)	(34)
Other creditors	(429)	(330)	(12)	(49)
Accruals and deferred income	(6,462)	(5,828)	(1,254)	(415)
	(9,586)	(10,974)	(6,255)	(4,862)

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 31 December 2003 £000	Group 31 December 2002 £000	Company 31 December 2003 £000	Company 31 December 2002 £000
Bank loan (secured)	–	(3,000)	–	(3,000)
Share of joint venture liabilities	(2,490)	(13,044)	–	–
Accruals and deferred income	(2,912)	(2,912)	–	–
Other loans	(390)	(812)	–	–
	(5,792)	(19,768)	–	(3,000)

Short-term debtors and creditors are not treated as financial assets and liabilities in relation to FRS13 disclosure requirements.

All banks 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 2003, the group had unutilised bank facilities of £15,000,000 (31 December 2002: £10,496,000). 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 were eliminated during the year as a result of strong cash generation from the group's racecourses (31 December 2002 net bank borrowings of £4,504,000). At 31 December 2003, the group held net cash at bank of £1,284,000 and a further £1,365,000 blocked bank deposit resulting in total cash of £2,649,000. Interest receivable on bank deposits ranged between 3.5% and 4.0% during the year. 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 £812,000 at 31 December 2003 (31 December 2002: £1,288,000).

Bank loans are repayable as follows:

	31 December 2003 £000	31 December 2002 £000
In more than two years but not more than five years	–	3,000
	–	3,000

Other loans represent monies advanced (interest free) in sterling by the Horserace Betting Levy Board. Of the total balance, £422,000 is repayable within one year (31 December 2002: £476,000), £210,000 is repayable within one to two years (31 December 2002: £422,000) and £180,000 is repayable within two to five years (31 December 2002: £390,000). The directors consider that the fair values of the loans are not materially different from the values stated above.

20 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, Sky 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.

21 Called up share capital

	31 December 2003 £000	31 December 2002 £000
Group and company		
Authorised		
429,353,724 ordinary shares of 5p each (31 December 2002: 429,353,724)	21,468	21,468
Allotted, called up and fully paid		
361,495,535 ordinary shares of 5p each (31 December 2002: 361,495,535)	18,075	18,075

Total share options in issue at 31 December 2003 were as follows:

	Number of ordinary shares	Exercise price	Period exercisable
(i) Under the Share Option Plan	209,533 475,352	14.25p 105p	3 August 2001 – 2 August 2008 25 May 2004 – 24 May 2011
(ii) Under the Discretionary Share Option Scheme	2,165,178 331,761 1,912,860 602,208 3,000,000 812,148	13p 14.25p 62p 62p 62p 105p	18 June 2000 – 17 June 2007 3 August 2001 – 2 August 2008 25 January 2003 – 24 January 2010 25 January 2005 – 24 January 2010 24 May 2006 – 23 May 2011 25 May 2004 – 24 May 2011
Total	9,509,040		

Details of directors' share options, included above, are disclosed in the Remuneration report. No share options have been granted during the year.

22 Reserves

	Share premium account £000	Merger reserves £000	Revaluation reserves £000	Profit and loss account £000
Group				
At 1 January 2003	87,625	5,417	15	(17,058)
Loss for year	–	–	–	(42,177)
At 31 December 2003	87,625	5,417	15	(59,235)

Cumulative goodwill eliminated against reserves at 31 December 2003 was £303,000 (31 December 2002: £303,000).

	Share premium account £000	Merger reserves £000	Revaluation reserve £000	Profit and loss account £000
Company				
At 1 January 2003	87,625	5,417	15	(3,459)
Loss for year	–	–	–	(58,685)
At 31 December 2003	87,625	5,417	15	(62,144)

23 Reconciliation of movement in shareholders' funds

	Group 31 December 2003 £000	Group 31 December 2002 £000	Company 31 December 2003 £000	Company 31 December 2002 £000
Loss for the financial period	(42,177)	(6,887)	(58,685)	(6,430)
New share capital subscribed (net of expenses)	–	100	–	100
Opening shareholders' funds	(42,177)	(6,787)	(58,685)	(6,330)
Closing shareholders' funds	94,074	100,861	107,673	114,003
	51,897	94,074	48,988	107,673

Notes to the accounts continued

24 Reconciliation of operating (loss)/profit to net cash inflow from operating activities

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Operating (loss)/profit	(19,581)	4,044
Depreciation charges	1,616	1,478
Amortisation of goodwill	308	308
Profit on disposal of tangible fixed assets	(67)	(38)
(Increase)/decrease in stocks	(14)	105
Decrease/(increase) in debtors	315	(1,001)
Increase in creditors	539	2,008
Provision against loans to <i>attheraces</i>	24,667	–
Net cash inflow from operating activities	7,783	6,904

25 Reconciliation of net cash flow to movement in net debt

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Increase/(decrease) in cash in the year	2,788	(983)
Cash outflow from decrease in debt	3,476	6,648
Change in net debt arising from cash flows	6,264	5,665
Opening net debt excluding blocked bank deposit	(5,792)	(11,457)
Closing net debt excluding blocked bank deposit	472	(5,792)
Blocked bank deposit	1,365	10,500
Net funds including blocked bank deposit	1,837	4,708

26 Analysis of net debt

	At 31 December 2002 £000	Cash flow £000	At 31 December 2003 £000
Cash at bank and in hand	569	715	1,284
Overdrafts	(2,073)	2,073	–
	(1,504)	2,788	1,284
Loans – amounts falling due within one year	(476)	54	(422)
Loans – amounts falling due after more than one year	(3,812)	3,422	(390)
	(4,288)	3,476	(812)
Net cash/(debt)	(5,792)	6,264	472
Blocked bank deposit	10,500	(9,135)	1,365
Net funds including blocked bank deposit	4,708	(2,871)	1,837

27 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.

	<i>attheraces</i> 2003	Trackplay 2003	<i>attheraces</i> 2002	Trackplay 2002
Sales of services	5,110	–	7,347	89
Debtors	288	–	791	–
Loans due from <i>attheraces</i>	–	–	49,500	–

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 2003 on pages 30 to 44 which have been prepared under the accounting policies set out on pages 33 to 34. We have also audited the information in the directors' Remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' Remuneration 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 and the part of the directors' Remuneration report to be audited 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 whether the financial statements and the part of the directors' Remuneration report to be audited have been 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 unaudited part of the directors' Remuneration report, the Chairman's statement, the Group Managing Director's review of operations, the Financial review and the Corporate governance statement. 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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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 and the part of the directors' Remuneration report to be audited. 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 and the part of the directors' Remuneration report to be audited 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 and the part of the directors' Remuneration report to be audited.

Opinion

In our opinion:

- The financial statements give a true and fair view of the state of the group's and the company's affairs as at 31 December 2003 and of the group's loss for the year then ended; and
- The financial statements and the part of the directors' Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP

Chartered accountants and registered auditors

London

22 April 2004

Notice of meeting

Notice is hereby given that the fortieth annual general meeting of the company will be held at Royal Windsor Racecourse, Maidenhead Road, Windsor, Berkshire, SL4 5JJ on Monday 14 June 2004 at 2.30pm for the following purposes:

Ordinary business

- 1 To receive the Directors' report and the accounts for the period ended 31 December 2003 and the auditors' report on the accounts.
- 2 To approve the directors' Remuneration report (as that term is used in Section 241A of the Companies Act 1985) for the year ended 31 December 2003.
- 3 To re-appoint as a director I R Penrose who retires by rotation pursuant to the company's Articles of Association and who, being eligible, offers himself for re-election.
- 4 To re-appoint as a director I C Hogg who retires by rotation pursuant to the company's Articles of Association and who, being eligible, offers himself for re-election.
- 5 To appoint BDO Stoy Hayward LLP 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 (special notice of the intention to move this resolution having been given to the company in accordance with Section 379(1) 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 6 will be proposed as an ordinary resolution and resolutions 7 and 8 will be proposed as special resolutions.

Ordinary resolution

- 6 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 £3,392,909 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 2005, 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

- 7 That, subject to the passing of resolution 6 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 £903,738 (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 2005, 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 board may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

Special resolution

- 8 That the share premium account of the company be cancelled.

By order of the board
Robert Mercer FCMA
Company Secretary
22 April 2004

Registered office:
1 Hay Hill
Berkeley Square
London W1J 6DH

Explanatory notes

Resolution 5 is proposed as an ordinary resolution to appoint BDO Stoy Hayward LLP as auditors to the company. Following the conversion of BDO Stoy Hayward to a Limited Liability Partnership (LLP) on 31 December 2003, BDO Stoy Hayward resigned as auditors on that date and the directors appointed their successor, BDO Stoy Hayward LLP, as auditors to fill the vacancy.

Resolution 6 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 £3,392,909 (which represents 18.8% 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 7, 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 £903,738, representing approximately 5% of the company's issued ordinary share capital at the date of this notice, which is in accordance with the guidelines issued by institutional investors. 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.

Resolution 8 is proposed as a special resolution to cancel the company's share premium account. As at 31 December 2003, the balance on the company's share premium account stood at £87,625,000. At the same date, the company had a deficit on its profit and loss account of £62,144,000. The company is precluded by the Companies Act 1985 from paying dividends for so long as it retains a deficit on its profit and loss account. In order both to eliminate the deficit on the profit and loss account and to create a reserve to enable the directors to declare dividends as and when they consider it appropriate to do so (subject to the protection of the company's creditors), it is proposed to cancel the share premium account of the company.

The proposed cancellation of the share premium account will require the approval of shareholders by special resolution and the subsequent confirmation of the Court. In considering whether to confirm the cancellation, the Court will ensure that the interests of the creditors of the company are not prejudiced. The company will put into place such form of creditor protection as the Court may require. The proposed cancellation will take effect upon registration of the Court's order with the Registrar of Companies. It is anticipated that the proposed cancellation will take place later this year.

It is the board's intention to declare a dividend in 2005.

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 connection with the meeting. 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 2.30pm on 12 June 2004, 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 2.30pm on 12 June 2004 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.

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST manual. The message must be transmitted so as to be received by the issuer's agent (ID RA 10) by the latest time(s) for receipt of proxy appointments specified in the Notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST systems and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35 (5) (a) of the Uncertificated Securities Regulations 2001.

Five year record

	Year to 31 December 2003 £000	Year to 31 December 2002 £000	Year to 31 December 2001 £000	9 months to 31 December 2000 £000	Year to 31 March 2000 £000
Turnover	34,302	32,675	26,604	15,700	14,423
Operating profit/(loss) before exceptional items	6,136	4,044	(1,779)	(5,036)	(2,293)
Tangible fixed assets	55,834	54,824	54,531	52,608	51,512
Net assets	51,897	94,074	100,861	26,145	32,352

Shareholder information

Analysis of shareholders

Number of shareholders: 6,947 (as at 19 April 2004)

	Shareholders %	Shares %
1,000 and under	46.9	0.4
1,001 to 5,000	35.5	1.8
5,001 to 10,000	7.4	1.1
10,001 to 100,000	8.1	4.7
Over 100,000	2.1	92.0

Held by:

	Shareholders %	Shares %
Banks	0.2	8.1
Insurance companies and pension funds	-	0.1
Nominee companies	8.4	31.2
Other corporate bodies	1.2	50.7
Individuals	90.2	9.9