

# Highlights

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- Pre-tax results excluding goodwill amortisation at break-even (2003: £1.8m loss)
- Pre-tax loss reduced by 88% to £0.2m (2003: £2.0m)
- Racecourse operating profit held at £3.7m, with underlying increase of 16% allowing for loss of old *attheraces* income and changes to industry funding of £0.6m (2003: £3.8m)
- Commencement of new At The Races on 11 June 2004
- Arena's share of At The Races losses reduced to £3.0m including closure of old *attheraces* (2003: £5.6m)
- Arena Online recorded profits of £0.4m and closed in June 2004 (2003: £0.6m)
- Capital expenditure of £5.8m, including £4.6m on the ongoing redevelopment of grandstand facilities at Lingfield Park
- Bank and other debt remains low at £2.4m (31 December 2003: £0.5m deposit)

# Chairman's statement

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## Introduction

I am pleased to announce our results for the six months to 30 June 2004, during which period we have made significant progress. We continue to move our emphasis onto our core operating assets and our racecourse division has once again delivered strong results. We have withdrawn from our involvement in technology and, together with BSKyB, have put At The Races on a sound business and financial footing.

## Financial review

The unaudited interim results for the six months ended 30 June 2004 show a 1% increase in turnover to £19.3m from £19.1m in the same period last year, reflecting a 12% increase in racecourse turnover and a 57% reduction in turnover from our now closed technology operations. Operating profit from our racecourse operations was held at £3.7m, which, allowing for reductions in racecourse receipts from *attheraces* and central industry funding of £0.6m, represented a 16% underlying increase on 2003. Operating profit from our now closed gaming technology business reduced by 33% to £0.4m and central costs remain tightly controlled at £1.1m. The group's share of the losses and closure costs of the old *attheraces* business was £3m, reduced from £5.6m last year. Overall pre-tax losses have been reduced by 88% to £0.2m.

## Racing review

Our racecourse division has produced very encouraging results in a period of major change and uncertainty in the racing industry. We took early action to address the inevitable reductions in income that was going to accrue to our racecourses as a consequence of the termination of the *attheraces* media rights contract, associated ongoing costs and the removal of industry funding for starting stalls. The above items reduced our income for the half year by £600,000 and we are pleased that our racecourses delivered operating profits of £3.7m, compared to £3.8m last year; an effective underlying increase of 16%.

Prize money paid out at our courses during this period increased from £5.7m to £5.9m.

We are delighted that our race meetings continue to prove increasingly popular with owners, trainers and racegoers. Our third all-weather Championships, sponsored again by Littlewoods Bet Direct, culminated in March with the richest race day in the history of all-weather racing when prize money in excess of £250,000 was awarded.

## Racecourse developments

We have continued with our strategy of investing in our racecourses to improve both the quality and experience for our wider customer base. Lingfield Park is nearing the completion of a £6m investment in the grandstand, atrium, bars, restaurants, parade ring and landscaping. The building works have caused a significant degree of disruption to the business operations and we thank our staff for their efforts and customers for their patience during this construction phase.

We are at an advanced stage in the installation of a £3m world-leading polytrack racing surface at Wolverhampton. Shortly, work will commence at Southwell on reconstructing the base of the fibreglass racing surface, at a cost of £1.5m. Together with further improvements in our spectator facilities, we will enter 2005 looking to build upon the quality of facilities in place across our racecourses.

## Chairman's statement continued

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Following a lengthy and detailed planning application and consultation process, Wolverhampton racecourse received planning approval from Wolverhampton City Council in January 2004 for the development of an integrated sports, leisure and gaming destination. The development, which will include the building of a 40,000 sq ft casino, doubling the size of the existing hotel to 106 bedrooms, together with the creation of dedicated trainers' and owners' facilities at the racecourse, is planned to be the first integrated development of its type in the UK. The planning approval was subsequently 'called in' for review by the Government Office for the West Midlands and we have engaged all the appropriate professionals to represent us at the Inquiry which is scheduled for the end of November. We will update on progress as appropriate.

Further work on development opportunities around our racecourses continues.

### The Office of Fair Trading ('OFT') and Arena

Following a process which has been ongoing for four years, we were pleased that the OFT has reached a preliminary agreement with the British Horseracing Board ('BHB') regarding the future shape and regulation of British horseracing. Many of these changes will take effect from 1 January 2006, and Arena looks forward to developing the commercial opportunities that will arise.

### At The Races review

The business formerly known as *attheraces* terminated the Media Rights Agreement with the Racecourse Association ('RCA') and the 49 racecourses on 29 March 2004 as a consequence of contractual clauses relating to the Tote's betting margin. In addition, the OFT ruled that, by selling their rights on a collective basis, the 49 UK racecourses restricted competition between them when supplying *attheraces* and that, as a result, *attheraces* had to pay more for the rights than would be the case if there was effective competition.

As a consequence of the above, in August 2004 At The Races commenced proceedings to recover its rights to receive rebates exceeding £50m.

Strategically, we wish to ensure that live coverage of Arena's race meetings are made available to the widest possible audience. This will attract new people into the sport and onto our racecourses, enhance the value of sponsorship and advertising packages to our customers, and provide betting opportunities for the wider population away from the racecourses, revenues from which will be distributed back to our racecourses under a fair and commercial mechanism in future years. As a consequence, Arena and BSKyB came together to form At The Races and has secured the media rights to Ascot, Northern Racing Plc, Newton Abbot, the GG Media courses and the exclusive satellite and cable rights to Irish racing. The UK's only dedicated television channel for racing is broadcast on Sky channel 415, Telewest 534 and ntl 908, available to over nine million homes and a potential audience exceeding 20 million people. Racing is made available to international territories through a partnership with SIS, the company that broadcasts racing pictures to the bookmaker shops in the UK, the largest shareholders of which include Ladbrokes and William Hill.

With the first rights payments expected to flow to the At The Races associated racecourses in October, strong partnerships domestically and globally, legal proceedings commenced for recovery of rebates, and the At The Races business being financially stable, we are pleased with the major progress that has been made.

### Technology review

In line with Arena's strategic aims, Arena Online Services was closed in June 2004.

### Acquisitions

Arena is delighted that following a lengthy and exceedingly competitive tender process, we were nominated as the preferred bidder to enter into a joint venture partnership with Doncaster Metropolitan Borough Council ('DMBC') to acquire and develop Doncaster racecourse, the home of the world's oldest classic horserace, the St Leger. Due diligence is under way and we would anticipate a successful completion later in the autumn.

We continue to look at a number of other acquisition and development opportunities to further develop the group.

### Dividend

On 11 August 2004, Arena was granted court approval to cancel its share premium account and subject to meeting the court's provisions, it will be transferred to profit and loss account reserves at 31 December 2004. The board does not intend to pay a dividend for the six months ended 30 June 2004 but anticipates that if trading continues in the current manner, Arena will pay its maiden dividend for the full year.

### Looking ahead

The group has made considerable progress over recent months and we expect this to continue in line with our stated strategy. The board views the future with confidence.



Roger D Withers  
Chairman  
1 September 2004

## Consolidated profit and loss account

	Note	Six months ended 30 June 2004 Unaudited £000	Six months ended 30 June 2003 Unaudited £000	Year ended 31 December 2003 Audited £000
<b>Turnover</b>	4	<b>19,288</b>	19,105	34,302
<b>EBITDA</b>		<b>3,621</b>	4,143	(17,657)
Depreciation		(645)	(742)	(1,616)
Amortisation		(154)	(154)	(308)
<b>Operating profit/(loss)</b>	4	<b>2,822</b>	3,247	(19,581)
<b>Share of operating loss in:</b>				
Joint venture		(3,031)	(5,573)	(21,215)
Associate		9	(10)	(22)
Goodwill amortisation in respect of joint venture		(42)	(113)	(226)
Goodwill impairment in respect of joint venture		-	-	(1,794)
<b>Total operating loss:</b>				
Group and share of joint ventures and associates		(242)	(2,449)	(42,838)
Income from other fixed asset investments		-	-	307
Net interest (payable)/receivable		(3)	432	554
<b>Loss on ordinary activities before taxation</b>		<b>(245)</b>	(2,017)	(41,977)
<b>Taxation</b>	2	-	(443)	(200)
<b>Loss on ordinary activities after taxation</b>		<b>(245)</b>	(2,460)	(42,177)
		<b>Pence</b>	Pence	Pence
Basic and diluted loss per share	3	<b>(0.07)</b>	(0.68)	(11.7)

All amounts relate to continuing activities.

All recognised gains and losses are included within the profit and loss account.

## Consolidated balance sheet

	At 30 June 2004 Unaudited £000	At 30 June 2003 Unaudited £000	At 31 December 2003 Audited £000
<b>Fixed assets</b>			
Intangible assets – goodwill	4,724	5,032	4,878
Tangible assets	60,932	55,712	55,834
Investments – in associate	347	350	338
– other	345	345	345
	692	695	683
	66,348	61,439	61,395
<b>Current assets</b>			
Stock	50	44	55
Debtors – due within one year	5,329	4,386	3,176
– due after more than one year	–	57,235	–
	5,329	61,621	3,176
Blocked bank deposit	–	2,765	1,365
Cash at bank and in hand	–	42	1,284
	–	2,807	2,649
	5,379	64,472	5,880
<b>Creditors: amounts falling due within one year</b>	(13,235)	(10,902)	(9,586)
<b>Net current (liabilities)/assets</b>	(7,856)	53,570	(3,706)
<b>Total assets less current liabilities</b>	58,492	115,009	57,689
<b>Creditors: amounts falling due after one year</b>			
Share of gross assets in joint venture	3,414	24,942	5,006
Share of gross liabilities in joint venture	(9,449)	(45,578)	(41,464)
	(6,035)	(20,636)	(36,458)
Arena Leisure Plc loans to joint venture	–	–	33,968
Goodwill in respect of joint venture	2,497	1,906	–
	(3,538)	(18,730)	(2,490)
Other	(3,302)	(4,665)	(3,302)
	(6,840)	(23,395)	(5,792)
<b>Net assets</b>	51,652	91,614	51,897
<b>Capital and reserves</b>			
Called up share capital	18,075	18,075	18,075
Share premium account	87,625	87,625	87,625
Merger reserve	5,417	5,417	5,417
Other reserves	15	15	15
Profit and loss account	(59,480)	(19,518)	(59,235)
<b>Shareholders' funds</b>	51,652	91,614	51,897

All shareholders' funds are equity.

## Consolidated cash flow statement

	Note	Six months ended 30 June 2004 Unaudited £000	Six months ended 30 June 2003 Unaudited £000	Year ended 31 December 2003 Audited £000
Net cash inflow from operating activities	5	<b>3,595</b>	4,765	7,783
<b>Returns on investment and servicing of finance</b>				
Interest received		<b>46</b>	546	990
Interest paid		<b>(49)</b>	(114)	(257)
Dividends received		-	-	307
		<b>(3)</b>	432	1,040
<b>Taxation</b>				
Taxation paid		-	-	-
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		<b>(5,840)</b>	(1,658)	(2,689)
Sale of tangible fixed assets		<b>67</b>	37	130
Loans to joint venture		-	(7,735)	(9,135)
		<b>(5,773)</b>	(9,356)	(11,694)
<b>Acquisition and disposals</b>				
Investment in joint venture		<b>(2,025)</b>	-	-
Net cash outflow before financing		<b>(4,206)</b>	(4,159)	(2,871)
<b>Management of liquid resources</b>				
Withdrawals from short-term deposits		<b>1,365</b>	7,735	9,135
<b>Financing</b>				
Repayment of loans		<b>(2)</b>	(2,552)	(3,476)
(Decrease)/increase in cash		<b>(2,843)</b>	1,024	2,788

## Notes to the accounts

- 1 There have been no changes to the accounting policies of the group as set out in the financial statements for the period ended 31 December 2003.
- 2 The tax charge for the period is nil due to the availability of tax losses.
- 3 Earnings per ordinary share have been calculated using the weighted average number of shares in issue during the periods. The weighted average number of shares in issue for the six months ended 30 June 2004 is 361,495,535 (six months ended 30 June 2003: 361,495,535). There are no potentially dilutive shares in issue.

### 4 Segmental information

	Six months ended 30 June 2004 Unaudited £000	Six months ended 30 June 2003 Unaudited £000	Year ended 31 December 2003 Audited £000
<b>Turnover</b>			
Racecourse operations	17,995	16,126	29,094
Gaming technology	1,293	2,979	5,208
	<b>19,288</b>	<b>19,105</b>	<b>34,302</b>
<b>Operating profit</b>			
Racecourse operations	3,677	3,767	7,021
Gaming technology	430	646	1,438
Central costs – excluding exceptional items	(1,131)	(1,012)	(2,015)
Exceptional items	–	–	(25,717)
Goodwill amortisation	(154)	(154)	(308)
	<b>2,822</b>	<b>3,247</b>	<b>(19,581)</b>

Operating profit is stated before group management charges and income within each business segment.

### 5 Reconciliation of operating profit to net cash flow from operating activities

	Six months ended 30 June 2004 Unaudited £000	Six months ended 30 June 2003 Unaudited £000	Year ended 31 December 2003 Audited £000
Operating profit/(loss)	2,822	3,247	(19,581)
Depreciation charges	645	742	1,616
Amortisation of goodwill	154	154	308
Loss/(profit) on disposal of tangible fixed assets	30	(9)	(67)
Decrease/(increase) in stocks	5	(3)	(14)
(Increase)/decrease in debtors	(2,153)	(895)	315
Increase in creditors	2,092	1,529	539
Provision against loans to At The Races	–	–	24,667
<b>Net cash inflow from operating activities</b>	<b>3,595</b>	<b>4,765</b>	<b>7,783</b>

## Notes to the accounts continued

### 6 Reconciliation of net cash flow to movement in net debt

	<b>Six months ended 30 June 2004 Unaudited £000</b>	Six months ended 30 June 2003 Unaudited £000	Year ended 31 December 2003 Audited £000
(Decrease)/increase in cash in the period	<b>(2,843)</b>	1,024	2,788
Cash outflow from reduction in debt	<b>2</b>	2,552	3,476
Change in net debt arising from cash flows	<b>(2,841)</b>	3,576	6,264
Opening net funds/(debt)	<b>472</b>	(5,792)	(5,792)
Closing net (debt)/funds	<b>(2,369)</b>	(2,216)	472
Blocked bank deposit	<b>-</b>	2,765	1,365
Net (debt)/funds (including blocked bank deposit)	<b>(2,369)</b>	549	1,837

- 7 The figures for the year ended 31 December 2003 have been extracted from the accounts, which have been filed with the Registrar of Companies. The auditors' report on these accounts was unqualified and did not contain a statement under Section 237. These accounts do not comprise statutory accounts within the meaning of Section 240.

# Company information and advisers

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## The board

**Roger D Withers**  
Chairman

**Ian R Penrose**  
Chief Executive

**Ian C Hogg**  
Director of Gaming Systems

**John Barnes**  
Non-executive director

**Brigadier Andrew H Parker Bowles OBE**  
Non-executive director

**Graham T Parr**  
Non-executive director

## Head and registered office

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## Company secretary

Robert Mercer FCMA

## Registered number

857819

## Auditors

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8 Baker Street  
London W1U 3LL

## Solicitors

Freshfields Bruckhaus Deringer  
65 Fleet Street  
London EC4Y 1HS

Nicholson Graham & Jones  
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London EC4N 6AR

## Principal bankers

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11 Earl Grey Street  
Edinburgh EH3 9BN

## Stockbrokers and financial advisers

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Mansell Street  
London E1 8AF

## Financial advisers

Deutsche Bank  
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Bridgewell Limited  
Old Change House  
128 Queen Victoria Street  
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## Registrar and transfer office

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