

Interim Report 2005



Highlights

- Pre and post-tax profit £2m (2004: £0.5m loss)
- Turnover increased by 12% to £20.2m (2004: £18.0m)
- Racecourse operating profit up 13% to £4.2m (2004: £3.7m)
- Average paying attendances increased by 10% and prize money upped by 14% to £6.8m
- Central costs reduced by 11% to £1m (2004: £1.1m)
- Planning application submitted to regenerate Doncaster racecourse
- At The Races ahead of target and on track to deliver profits in 2006
- Interim dividend 0.25 pence per share
- EPS 0.6 pence per share (2004: loss of 0.1 pence per share)

Chairman's statement

Introduction

I am delighted to report that Arena Leisure Plc ('Arena') has once again produced excellent trading results. A clear focus on the strategic and operational goals has again enabled us to deliver record profits in our racing business.

Financial review

The unaudited interim results for the six months ended 30 June 2005 show profits after tax of £2 million, representing a fundamental £2.5 million improvement on the same position last year (30 June 2004: £0.5 million loss). Turnover has increased by 12% to £20.2 million and operating profits from our racecourse operations have increased by 13% to £4.2 million. Central costs have been reduced by 11% to £1 million. Arena's share of the operating losses of At The Races have been reduced to £0.7 million from a £3 million loss in the same period last year. This, together with a further £0.2 million share of legal costs incurred in pursuing the rebate claim, results in a post-tax share of At The Races losses of £0.9 million. After finance costs of £0.2 million (30 June 2004: £0.05 million) the profit for the period attributable to equity shareholders is £2 million, £2.1 million better than last year (30 June 2004: £0.1 million loss).

Racecourse division

The racecourse division has once again delivered strong results with operating profits for the first half of the year of £4.2 million, 13% ahead of last year. Total prize money for the period was £6.8 million, a 14% increase. Attendances have also increased in the period with average paying attendance up 10% on last year. These trends have continued since the half year and we have witnessed record crowds at Worcester and on three separate occasions at Royal Windsor.

As the UK's number one operator of racing fixtures, hosting approximately 27% of all racing in the UK, Arena is committed to investing in its racecourses. We seek to improve the quality of service and the experience that we deliver to racegoers and industry professionals alike.

Accordingly, we have continued to build on the investment programme that we have been implementing across our racecourses. By investing in our own starting stalls, stalls handling equipment and photofinish equipment, together with the recruitment of specialised and trained personnel, we will be able to provide a dedicated, efficient and specialised racing service.

We recognise the importance of people to our business and have continued to invest in our staff, facilities and systems to ensure that the growth we have delivered continues. We have looked to strengthen and train our operational teams further, and in order to improve the quality of our sales initiatives we are currently installing a new hospitality management system across all of our racecourses.

The group continues to focus on driving efficiencies. Back in July we announced the rationalisation of contracts associated with the broadcast and onward transmission of the pictures of live racing from Arena's racecourses. This will deliver annualised cost savings of £0.5 million. In the coming weeks we expect to announce the successful outcome of another initiative to deliver operational efficiencies and material cost savings going forward.

Reflecting our commitment to improving our racecourse venues for our customers, we were delighted when our hotel on the racecourse at Wolverhampton achieved the best overall score for 'Guest Satisfaction' in the second quarter of the year for the Holiday Inn Hotels & Resorts in the Europe, Middle East and Africa category.

The sport of horseracing continues to modernise and as part of that process, in June, we participated successfully in the auction of fixtures conducted by the British Horseracing Board (BHB). We acquired 66 new fixtures at an average cost of £6,300, having returned 73 predominantly lower quality fixtures. This improvement in the mix of fixtures will enhance the quality of the fixture list for 2006, providing an added draw to our venues which will translate into additional profits next year.

The investment into our core racing product over the last four years has also delivered the expected growth in betting turnover and betting margins, and the corresponding growth in the Levy. The investment of over £20 million into providing the world's leading racing surfaces, rebuilding many of our facilities and repositioning All Weather racing in this country has led to Arena's share of the £100 million annual Levy generation to rise to nearly 25%, from some 16% four years ago. With Arena receiving some 17% of the Levy for reinvesting in our business and prize money, it is clear that hypothecation of income, representing a more equitable way of distributing money from the Levy, needs to be introduced at the earliest opportunity. We welcome the support from, amongst others, Greg Nichols, Chief Executive of the BHB, in moving towards this broad principle.

Following the ruling from the European Court of Justice on data, the decision of the Court of Appeal in July 2005 has led the racing industry to work together with the Funding Review Group, under the Chairmanship of Lord Donoughue, to find an enforceable funding mechanism to replace the Statutory Levy in 2009. Arena looks forward to racing being under the umbrella of a reformed British Horseracing Board, having split the functions of governance and integrity from those of commercial and finance.

Racecourse developments

We continue to make significant progress in relation to lodging our planning applications to improve the racing and leisure facilities at both Lingfield Park and Royal Windsor. We expect both of these to be lodged over the next few weeks.

It was with significant disappointment that we received the news from the Office of the Deputy Prime Minister that we were unsuccessful with our planning application to regenerate the racecourse, hotel and additional leisure facilities at Dunstall Park, Wolverhampton, despite having received full support from Wolverhampton City Council in January 2004. We are waiting to hear whether the Unitary Development Plan ('UDP') removes the racecourse from the Green Belt, or whether a redesign of our proposals will be required to reduce the impact of the scheme on the openness of the Green Belt area.

Last week we were pleased to be able to submit a detailed planning application in conjunction with Doncaster Metropolitan Borough Council ('DMBC') for the redevelopment of Doncaster racecourse, home of the world's oldest classic horserace, the St Leger. The proposals include the development of a brand new state-of-the-art grandstand, conference and exhibition centre, along with new stables and an accommodation block on the site, to transform it into a leading racecourse and leisure venue. This was an important landmark in the process to concluding our joint venture partnership with DMBC which we expect to announce shortly. In the meantime we have delivered a 27% increase in total corporate attendance and a 12% increase in other paying guests since we took over management in September 2004. We look forward to building on this positive start when the new facilities open in 2007.

Chairman's statement continued

At The Races review

At The Races ('ATR') continues to make strong progress. It is ahead of target and is on track to deliver profits in 2006.

ATR has maintained its domestic distribution base of 10 million households by successfully renewing its agreements with cable operators NTL and Telewest. Importantly, ATR has also added red button functionality behind its interactive betting application on NTL. ATR has successfully launched its online 'Bet and Watch' product, thereby enabling a bookmaker's online punters to watch a race live having placed a bet. The service is already live with Ladbrokes, bet365, Paddy Power and Boylesports, with others rolling out imminently.

In June, ATR became the world's first sports channel to introduce a live, daily interactive 3G service, which is available in the UK to all customers of 3 and Vodafone, simply by dialling 83415 on their video call function. The channel is then streamed live to the 3G handset and users can also place a bet with William Hill.

A number of contracts have been renegotiated which will deliver significant benefits in 2006. In particular the strength of the audience numbers, which peaked in the period at 1.1 million viewers in June 2005, compared to 0.9 million viewers in June 2004, has enabled all advertising sales for the domestic channel to be contracted by Sky Media and all sponsorship to be overseen by At The Races itself.

ATR has also expanded its international reach. By the end of September, it will be available in over 30 countries and to facilitate this growing market, valuable capacity on the PAS10 satellite has been secured enabling ATR's distribution footprint to extend to South East Asia, Australasia and the Far East. In conjunction with this international strategy ATR has concluded an important agreement with the UK Tote, to enable the commingling of bets placed by international customers on races shown on At The Races international back into the UK Tote, thereby swelling domestic pool sizes.

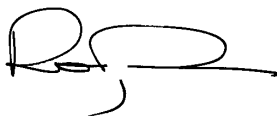
ATR continues to pursue its legal right to receive rebates from those racecourses that were party to the *attheraces* media rights agreement, which is scheduled to be heard in the High Court in November 2005. This case follows the successful injunction application against the British Horseracing Board which was attempting to withhold a supply of data to ATR's various domestic and international customers.

Dividend

I am pleased to announce that following our maiden dividend paid in June 2005, our continued strong performance will enable your board to pay an interim dividend for the first time. The dividend of 0.25 pence per share (30 June 2004: nil pence) will cost £0.9 million and is proposed to be paid on 11 October to all shareholders on the register at the close of business on 16 September 2005.

Outlook

Since 30 June 2005 the Group has continued to make significant progress with record attendances, strong operational efficiencies and continued progress at At The Races. We continue to look for acquisitions where we can add shareholder value. With trading ahead of the recently raised expectations and materially ahead of last year, the board views the future with confidence.



Roger D Withers

Chairman
7 September 2005

Consolidated income statement

	Six months ended 30 June 2005 Unaudited £000	Six months ended 30 June 2004 Restated Unaudited £000	Year ended 31 December 2004 Restated Unaudited £000
Group turnover	20,199	17,995	36,019
Operating costs	(13,317)	(12,066)	(23,688)
Gross profit	6,882	5,929	12,331
Administrative costs	(3,731)	(3,382)	(7,157)
Share of post-tax results of joint venture and associates	(928)	(3,022)	577
Profit/(loss) before interest and taxation	2,223	(475)	5,751
Net finance costs	(216)	(49)	(843)
Profit/(loss) before taxation	2,007	(524)	4,908
Taxation	–	–	195
Profit/(loss) on ordinary activities after taxation	2,007	(524)	5,103
Profit from discontinued operations	–	430	482
Profit/(loss) for the period attributable to equity shareholders	2,007	(94)	5,585
Earnings per share:			
Continuing operations	Pence	Pence	Pence
Basic earnings/(loss) per share	0.6	(0.1)	1.4
Diluted earnings/(loss) per share	0.6	(0.1)	1.4
Continuing and discontinued operations			
Basic earnings per share	0.6	–	1.5
Diluted earnings per share	0.6	–	1.5
Dividend per ordinary share proposed for the period	0.25	–	0.30

Consolidated balance sheet

	At 30 June 2005 Unaudited £000	At 30 June 2004 Restated Unaudited £000	At 31 December 2004 Restated Unaudited £000
Assets			
Non-current assets			
Property, plant and equipment	69,302	61,958	68,867
Goodwill	4,878	4,878	4,878
Equity accounted investments (joint venture and associates)	(1,887)	(5,688)	(959)
Goodwill in respect of joint venture	1,580	2,539	1,374
Loans to joint venture	1,441	–	2,991
Other investments	345	345	345
	75,659	64,032	77,496
Current assets			
Inventories	30	50	30
Trade and other receivables	5,008	5,329	3,904
Cash and cash equivalents	–	–	27
	5,038	5,379	3,961
Total assets	80,697	69,411	81,457
Liabilities			
Current liabilities			
Trade and other payables	(9,876)	(11,256)	(9,454)
Short-term borrowings	(3,838)	(1,979)	(1,843)
Current tax payable	–	–	(5)
	(13,714)	(13,235)	(11,302)
Non-current liabilities			
Other payables	(308)	(1,357)	(1,403)
Long-term borrowings	(5,644)	(390)	(8,644)
Accruals and deferred income	(2,912)	(2,912)	(2,912)
	(8,864)	(4,659)	(12,959)
Total liabilities	(22,578)	(17,894)	(24,261)
Net assets	58,119	51,517	57,196
Equity			
Share capital	18,075	18,075	18,075
Share premium account	–	87,625	–
Other reserves	5,417	5,432	5,417
Retained earnings	34,627	(59,615)	33,704
Total equity	58,119	51,517	57,196

Consolidated cash flow statement

	Six months ended 30 June 2005 Unaudited £000	Six months ended 30 June 2004 Unaudited £000	Year ended 31 December 2004 Unaudited £000
Cash flows from operating activities			
Cash generated from operations	3,309	3,595	7,011
Interest paid	(188)	(49)	(943)
Tax paid	(5)	–	–
Net cash from operating activities	3,116	3,546	6,068
Cash flows from investing activities			
Interest received	–	46	106
Purchase of property, plant and equipment	(2,442)	(5,840)	(13,537)
Proceeds on disposal of property, plant and equipment	44	67	82
Loan to joint venture investment	1,550	–	(2,991)
Investment in joint venture	(206)	(2,025)	(2,025)
Decrease in restricted bank account	–	1,365	1,365
Net cash from investing activities	(1,054)	(6,387)	(17,000)
Cash flows from financing activities			
Net proceeds from new bank loan	–	–	8,580
Repayment of borrowings	(3,000)	(2)	(422)
Dividends paid	(1,084)	–	–
Net cash from financing activities	(4,084)	(2)	8,158
Net decrease in cash and cash equivalents	(2,022)	(2,843)	(2,774)
Cash and cash equivalents at 1 January	(1,490)	1,284	1,284
Cash and cash equivalents at period end	(3,512)	(1,559)	(1,490)
Cash and cash equivalents consist of:			
Cash and cash equivalents	–	–	27
Overdrafts	(3,512)	(1,559)	(1,517)
	(3,512)	(1,559)	(1,490)

Notes to the accounts

- 1 The interim financial statements have been prepared in accordance with the accounting policies and presentation required by those International Financial Accounting Standards, incorporating International Accounting Standards (IAS) and interpretations (collectively IFRS), which are expected to be endorsed by the EU and applicable for use in the company's annual financial statements for the year ended 31 December 2005. Comparative information for the six months ended 30 June 2004 and for the year ended 31 December 2004 has been restated on an IFRS basis. The endorsed IFRS that will be effective (or available for early adoption) in the annual financial statements for the year ended 31 December 2005 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for the period will only be determined finally when the annual consolidated financial statements are prepared for the year ended 31 December 2005.

On 6 September 2005 Arena Leisure Plc published financial information in accordance with IFRS on the London Stock Exchange. This document included explanations of the impact of the transition from UK GAAP to IFRS on the financial statements for Arena Leisure Plc and contained disclosure and reconciliations in respect of the restatement of 2004 accounts under IFRS. The document is available on the company's website.

- 2 The tax charge for the period is nil due to the availability of tax losses.
- 3 Basic earnings per 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 to 30 June 2005 is 361,495,535 (six months to 30 June 2004: 361,495,535). The calculation of diluted earnings per share is calculated using the weighted average number of shares in issue, adjusted for the number of outstanding share options capable of being exercised.

Notes to the accounts continued

4 Segmental information

	Six months ended 30 June 2005 Unaudited £000	Six months ended 30 June 2004 Unaudited £000	Year ended 31 December 2004 Unaudited £000
Turnover			
Racecourse operations	20,199	17,995	36,019

Profit before interest and taxation (excluding discontinued operations)

Racecourse operations	4,153	3,678	7,295
Central costs	(1,002)	(1,131)	(2,121)
Share of joint venture results after tax	(937)	(3,031)	617
Share of associate results after tax	9	9	(40)
	2,223	(475)	5,751

5 Reconciliation of net profit to cash generated from operations

	Six months ended 30 June 2005 Unaudited £000	Six months ended 30 June 2004 Unaudited £000	Year ended 31 December 2004 Unaudited £000
Net profit/(loss)	2,007	(94)	5,585
Share of post tax loss/(profit) of joint ventures and associates	928	3,022	(577)
Net interest payable	216	49	843
Taxation			(195)
Depreciation charges	843	644	1,424
(Profit)/loss on disposal of fixed assets	(3)	30	23
Goodwill released on allocation of shares in At The Races to Ascot racecourse	-	-	71
Profit on allocation of shares in At The Races to Ascot racecourse	-	-	(36)
Decrease in inventories	-	5	25
Increase in trade and other receivables	(1,121)	(2,153)	(642)
Increase in trade and other payables	439	2,092	490
Cash generated from operations	3,309	3,595	7,011

6 Statement of changes in equity

	Share capital £000	Share premium account £000	Other reserves £000	Profit and loss account £000
At 1 January 2004	18,075	87,625	5,432	(59,521)
Loss for six months to 30 June 2004	–	–	–	(94)
At 30 June 2004	18,075	87,625	5,432	(59,615)
Profit for six months to 31 December 2004	–	–	–	5,679
Capital reorganisation	–	(87,625)	(15)	87,640
At 31 December 2004	18,075	–	5,417	33,704
Profit for six months to 30 June 2005	–	–	–	2,007
Dividend	–	–	–	(1,084)
At 30 June 2005	18,075	–	5,417	34,627

7 Statement of net debt

	At 30 June 2005 Unaudited £000	At 30 June 2004 Unaudited £000	At 31 December 2004 Unaudited £000
Cash and cash equivalents	–	–	27
Bank overdraft	(3,512)	(1,559)	(1,517)
Net cash and cash equivalents at period end	(3,512)	(1,559)	(1,490)
Bank loan	(5,000)	–	(8,000)
HBLB loans	(970)	(810)	(970)
Net debt at end of period	(9,482)	(2,369)	(10,460)

Notes to the accounts continued

- 8 The figures for the year ended 31 December 2004 are based on the accounts which have been filed with the Registrar of Companies and have been restated to take into account the changes required under IFRS. The auditors' report on the accounts prepared under UK GAAP and filed with the Registrar of Companies was unqualified and did not contain a statement under Section 237(2)/(3) of the Companies Act 1985. These accounts do not comprise statutory accounts within the meaning of Section 240.

9 Dividends

	Six months ended 30 June 2005 Unaudited £000	Six months ended 30 June 2004 Unaudited £000	Year ended 31 December 2004 Unaudited £000
Final dividend for the year ended 31 December 2004	1084	–	–

The proposed interim dividend of 0.25 pence per ordinary share in respect of the year ending 31 December 2005 was approved by the board on 6 September 2005 and in accordance with IFRS has not been included as a liability at 30 June 2005.

Company information

The Board

Roger D Withers
Non-Executive Chairman

Ian R Penrose
Chief Executive

Ian Renton
Racing Director

John Barnes
Non-executive director

Brigadier Andrew H Parker Bowles OBE
Non-executive director

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