

Chairman's statement

Introduction

I am pleased to announce our results for the six months ended 30 June 2002, in which we have made significant progress in all aspects of our business.

During this period, we have seen a fundamental and positive change in the economics of our racing business as a consequence of the transaction concluded in May 2002 between UK racecourses and bookmakers for racing pictures. This is expected to triple the income Arena receives from this source from £2 million to £6 million per annum. The period under review only includes an eight-week contribution from this increase. Further, we were delighted that the Department of Culture, Media and Sport ('DCMS') intervened in the long running dispute between the British Horseracing Board and the UK bookmakers, and set the additional contribution that bookmakers make to the racing industry, the Levy, at a level which is expected to generate an additional £40 million per annum to racing.

As we indicated in our Annual Report for 2001, both our racing and technology divisions are now delivering strong profits. Our investment in *attheraces* is in line with expectations, and we remain confident of its long-term success.

Financial Review

The unaudited interim results for the six months ended 30 June 2002 show a 32% increase in turnover to £15.6 million from £11.8 million in the same period last year. EBITDA improved by £3.4 million to £1.9 million, as a consequence of strong contribution from both our racing and technology divisions. Racecourse operating profits rose by 135% to £1.4 million, a result which includes only eight weeks' contribution from the enhanced bookmaker picture deal. Our technology division, Arena Online, also recorded a marked turnaround of £2.6 million, recording operating profits of £0.7 million compared to a loss of £1.9 million last year.

Central costs of £0.9 million remain tightly under control and in line with last year. Deducting goodwill amortisation of £0.2 million results in Group operating profit increasing by £3.4 million to £1 million for the six months ended 30 June 2002.

Arena's share of *attheraces*' loss and start up costs during the period, including launch of the Channel 418, was in line with expectations at £5.7 million. Goodwill amortisation in respect of *attheraces* was £0.1 million, which together with net interest receivable of £0.3 million, results in a group loss before and after tax of £4.5 million.

We have now completed the initial investment of £37 million (£18.3 million in the period under review) to acquire 3% of all pari-mutuel (Tote) bets that are wagered on any *attheraces* service, and funded a further £3.2 million of *attheraces*' working capital requirement in the period. As a consequence, at 30 June 2002 we had cash on deposit earmarked for *attheraces* of £17.6 million, together with bank and other indebtedness of £9.1 million set against our racecourse business.

It is your Board's intention not to pay a dividend for the six months ended 30 June 2002, but to continue to reinvest in the growth of the business.

Racing Review

We are pleased by the achievements made during the first half of 2002. Racecourse operating profits rose by 135% to £1.4 million, which included an increase in our contribution to prize money of £200,000. In addition, we invested over £100,000 in prizes at our inaugural awards dinner, celebrating the successful conclusion of our first all-weather racing championships. Prizes were awarded to leading owners, trainers, jockeys and importantly stable staff. We look forward to the second championships commencing in November.

Notable trading achievements have included record crowds at both Lingfield Park and Royal Windsor since our ownership began, and particularly strong trading at our racecourse and hotel

complex in Wolverhampton. Additionally, our decision to contract Letheby & Christopher to provide specialist catering services at all of our racecourses has seen improved customer satisfaction and financial benefits.

We are delighted by the continued success of our investment in the £3 million Polytrack all-weather surface at Lingfield Park last November, which has attracted praise and endorsement from many trainers and jockeys. We hope that the uniform and reliable nature of this surface will continue to encourage more owners and trainers to experience these unique racing conditions.

Further investment in 2002 included the opening of a new 3-lane bridge at Royal Windsor racecourse at a cost of nearly £1 million. This investment has already had a dramatic impact on access to and from the racecourse and the customer experience has improved as a direct consequence.

As outlined below, in line with anticipated changes in legislation and regulation affecting the racing and gaming industries, the Group is at an advanced stage of talks with leading casino operators with a view to exploiting the commercial opportunity of a casino at Wolverhampton racecourse. We will be announcing details of these plans shortly.

Industry Developments

The racing and the gaming industries in general are going through a very significant period of change. Recent months have witnessed a positive change in the way that important relationships between the Government, racing and the gaming industries have developed. The welcome decision of the Government to include tax-free betting in the UK from October 2001 has led to the expected strong growth in betting on horseracing. The subsequent determination by the DCMS under the 41st Levy is estimated to generate an additional £40 million per annum to racing. Further, the conclusion of the sale of pictures referred to earlier has engendered a positive relationship between racecourses and bookmakers signalling the opportunity to work together to grow both industries.

The wide-ranging inquiry launched by the Office of Fair Trading ('OFT') into the structure of the sport and the role of the British Horseracing Board within it continues. We would welcome initiatives that facilitate a competitive and commercial environment for all, and one in which closer contact and positive working relationships with all our customers are encouraged. It is vital that such initiatives protect the reputation and quality of the world's best horseracing. We anticipate a statement from the OFT in Autumn 2002.

We welcome the Government's response to Sir Alan Budd's Gambling Review, which is seeking to establish a regulatory framework that will be positive for gambling overall in the UK. We continue to evaluate the opportunities that this should bring to our racecourse operations in the areas of hotels, casinos and gaming halls. Our racecourse at Wolverhampton, which was totally rebuilt some eight years ago, incorporating a Holiday Inn hotel and unique floodlit racing is already situated within a permitted area for wider gaming activity. We are in advanced talks with leading casino operators to bring this opportunity into reality ahead of the legislation required under the Gambling Review. This legislation is expected to be included in the Queen's Speech in Autumn 2003, followed by Royal Assent in the last quarter of 2004. We expect to make further announcements in the near future.

attheraces Review

The *attheraces* digital television channel was successfully launched on Sky Channel 418 in May and has quickly established strong audience figures. Growth in audience trends has been healthy and we are pleased to report that in July the peak daily audience amounted to 326,153 viewers, with the peak weekly audience reached being 774,000 people, an increase of 10% on those in June. These figures bode well for the interactive betting service which, when launched later in the year, will use pioneering technology with information updated every two minutes, vital for a comprehensive and real time betting facility, together with customer friendly betting via the remote control.

On 29 May 2002 we announced that *attheraces* had secured contracts for a minimum of £18 million for the coming year from re-selling certain of the media rights acquired. As a consequence, in excess of 80% of *attheraces'* £22 million media rights commitment to racecourses (1 July 2002 to 30 June 2003) has been secured. *attheraces* continues to seek further opportunities to market its broadcast and betting rights.

Since its launch in December 2001 we have been pleased with the progress of the *attheraces.co.uk* website. To date the site has attracted 41,000 registrations with more than 238,000 bets placed, generating a turnover in excess of £1.8 million.

In June 2002, Ian Hogg, Arena's Director of Gaming Systems, was seconded to *attheraces* as Chief Operating Officer during this period of intense activity.

Despite the longer than anticipated time to launch the interactive betting service on Sky, the financial performance of *attheraces* has been maintained in line with expectations, as non-betting revenues have exceeded initial forecasts and costs have been tightly controlled.

Technology Review

Our technology division continues to have a key role on behalf of its principal customer *attheraces* in supporting and assisting in the development of interactive platforms. Following the launch of the internet site in December 2001, a telephone betting service (0800 083 83 83) was launched in June 2002. Enhancements have been made to the *attheraces.co.uk* website, including the integration of bookmaking alternatives, and we continue to work closely with technology suppliers and engineers at Sky to prepare the full interactive information and betting service for launch both on Sky and Channel 4 digital shortly.

We are pleased by the £2.6 million turnaround in the financial performance of our technology division, delivering an operating profit of £0.7 million for the first half year.

Trackplay, our 30% gaming technology associate with Autotote Systems Incorporation, a subsidiary of the NASDAQ listed Scientific Games Corporation of the USA, continues to trade in line with our expectations at a near breakeven position.

Looking Ahead

We are confident about the strength of our racecourse division following the recent bookmaker transactions and developments arising in light of expected industry changes. Current trading at our racecourses is at record levels, and in line with our expectations. We are confident that the racecourses will continue to prosper both as a result of additional investment and development, and also under the anticipated deregulated horseracing and gaming environments.

The strong viewing figures for *attheraces* Channel 418 gives us grounds for confidence about the success of the impending launch of interactive betting. We remain confident about the long-term future of *attheraces*.

The Group remains uniquely positioned to grow and develop. We view the future with continued optimism.



Roger Withers
Chairman

4 September 2002

Consolidated cash flow statement

Note	Six months ended 30 June 2002 unaudited	Six months ended 30 June 2001 unaudited	Year ended 31 December 2001 audited	
	£000	£000	£000	
Net cash inflow/(outflow) from operating activities	4	2,947	(577)	1,434
Returns on investment and servicing of finance				
Interest received	642	121	1,280	
Interest paid	(384)	(989)	(1,420)	
	258	(868)	(140)	
Taxation				
Taxation paid	-	-	-	
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(1,146)	(1,076)	(4,184)	
Sale of tangible fixed assets	345	47	798	
Loans to joint venture	(21,450)	-	(20,950)	
	(22,251)	(1,029)	(24,336)	
Acquisition and disposals				
Investment in joint venture	-	(2,345)	(2,160)	
Investment in associate	-	-	(407)	
Net cash outflow before financing	(19,046)	(4,819)	(25,609)	
Management of liquid resources				
Payments into short term deposits	-	(60,000)	(60,000)	
Withdrawals from short term deposits	21,450	-	20,950	
	21,450	(60,000)	(39,050)	
Financing				
Inception of loans	900	10,000	10,000	
Issue of ordinary shares	-	85,672	85,672	
Repayment of loans	(4,265)	(18,081)	(18,429)	
Expenses paid on issue of shares	-	(4,508)	(4,785)	
	(3,365)	73,083	72,458	
(Decrease)/increase in cash	(961)	8,264	7,799	

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 2001 other than the adoption of FRS 19, deferred tax. Full provision is now made for deferred tax on all timing differences that have originated but not reversed by the balance sheet date. However, deferred tax assets are only recognized to the extent that the group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are not discounted. Adopting FRS 19 has had no effect on the results of the group.

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 2002 is 360,726,897 (six months ended 30 June 2001: 273,036,381). There are no potentially dilutive shares in issue.

4 Reconciliation of operating profit/(loss) to net cash flow from operating activities

Note	Six months ended 30 June 2002 unaudited	Six months ended 30 June 2001 unaudited	Year ended 31 December 2001 audited
	£000	£000	£000
Operating profit/(loss)	1,051	(2,372)	(1,779)
Depreciation charges	730	684	1,478
Amortisation of goodwill	154	154	307
Loss on disposal of tangible fixed assets	(5)	(6)	(15)
Decrease in stocks	100	4	21
(Increase)/decrease in debtors	(1,672)	(745)	421
Increase in creditors	2,589	1,704	1,290
Decrease in provisions	-	-	(289)
Net cash inflow/(outflow) from operating activities	2,947	(577)	1,434

Notes to the accounts *continued*

5 Reconciliation of net cash flow to movement in net debt

	Note	Six months ended 30 June 2002 unaudited	Six months ended 30 June 2001 unaudited	Year ended 31 December 2001 audited
		£000	£000	£000
(Decrease)/increase in cash in the period		(961)	8,264	7,799
Cash outflow from reduction in debt		3,365	8,081	8,429
Change in net debt arising from cash flows		2,404	16,345	16,228
Opening net debt		(11,457)	(27,685)	(27,685)
Closing net debt		(9,053)	(11,340)	(11,457)
Blocked bank deposit	6	17,600	60,000	39,050
Net cash		8,547	48,660	27,593

6 The blocked bank deposit is a restricted cash deposit to fund Arena's obligations to Attheraces Holdings Ltd and its subsidiaries, this being the joint venture company controlled by Arena Leisure Plc, BSKyB and Channel Four. 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 its use is unrestricted.

7 The figures for the year ended 31 December 2001 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.