



1 March 2007

**ARENA LEISURE PLC  
PRELIMINARY RESULTS FOR YEAR ENDED 31 DECEMBER 2006**

Arena Leisure Plc ('Arena'), the UK's largest operator of horseracing fixtures, today announces its audited preliminary results for the year ended 31 December 2006.

**Financial highlights**

- Turnover increased by 11.1% to £45.3m (2005: £40.7m)
- Profit before tax increased by 29.6% to £5.8m (2005: £4.5m)
- Earnings per share increased by 29.8% to 1.61p (2005: 1.24p)
- Adjusted earnings per share increased by 12.9% to 1.49p (2005: 1.32p)
- Proposed final dividend of 0.26p per share, giving a total dividend of 0.51p per share – an increase of 13.3% (2005: 0.45p per share)
- Profit from the racecourse division increased by 8.5% to £8.7m (2005: £8.0m)
- Arena's share of At The Races' adjusted operating loss reduced by 74% to £0.3m (2005: £1.0m)

**Operating highlights**

- Record 353 fixtures held (2005: 324), staging 2,388 races (2005: 2,172) and representing around 26% of all UK fixtures and races.
- New five year agreement signed with Bookmakers' Afternoon Greyhound Service ('BAGS') for the supply of Arena's live horseracing pictures to Britain's licensed betting shops with an estimated value of around £55m (amount received in 2006: £8.8m).
- Wolverhampton Racecourse staged a record 111 fixtures (2005: 91).
- Winter Derby at Lingfield Park run for the first time at Group 3 status.

**Development highlights**

- Planning permission granted for hotel and leisure development at Lingfield Park Racecourse.
- Doncaster Racecourse's £32m redevelopment on schedule to re-open in August 2007 and a planning application for a combined hotel and residential development submitted.
- Creation of a catering division within Arena to direct, manage and operate all catering activities across Arena's portfolio of seven racecourses.
- Planning application for Wolverhampton Racecourse submitted in February 2007 to expand the current hotel and incorporate a casino to create the UK's first 'racino'.
- Wolverhampton City Council recommended to receive a 'small' casino licence by the Casino Advisory Panel in January 2007.

**Raymond Mould, Arena’s Chairman, said today:**

“I am delighted to report on another successful year for Arena, with solid performances from both our racecourse division and our joint venture media rights company, At The Races. Most importantly, advances were made in a number of strategically important areas that will yield significant value over the forthcoming years.

“The UK leisure industry is a dynamic marketplace and, within this, the UK horseracing industry is no exception. I am confident that, in terms of its personnel and the policies that it is pursuing, Arena is well placed to capitalise on the exciting value enhancing opportunities that it possesses, thereby helping the racing industry as a whole to move forward and continuing to deliver a growing earnings stream for its shareholders.”

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## Chairman's Statement

I am delighted to report on another **successful year** for Arena Leisure Plc ('Arena'), with solid performances from both our racecourse division and our joint venture media rights company, At The Races. Most importantly, advances were made in a number of strategically important areas that will yield significant value over the forthcoming years.

The major £32m redevelopment of **Doncaster Racecourse** remains on budget and on schedule for completion in mid-August 2007, in time to stage this year's Ladbrokes St. Leger in September. A planning application for a 120-bedroom hotel with 34 residential apartments at Doncaster Racecourse was submitted in November. Earlier in the year, outline planning permission was received for a development at **Lingfield Park** incorporating a 120-bedroom hotel, leisure club, restaurant and bar, golf club house and hospitality boxes.

In December, we signed a new five year agreement with Bookmakers' Afternoon Greyhound Service ('**BAGS**') that commenced in January 2007 for the supply of our live horseracing pictures to Britain's licensed betting shops. The value of the contract over the five-years is estimated at around £55m (amount received in 2006: £8.8m).

The Government also announced the retention of the **Levy** until such time as a secure and adequate alternative commercial funding arrangement can be identified. This removed the considerable uncertainty that had recently surrounded the racing industry. In 2006, Arena received £20.0m from the Levy (2005: £16.1m), representing 44% (2005: 40%) of our annual turnover.

Following an extensive review of the provision of catering services at Arena's racecourses, we decided to create a **new catering division** to direct, manage and operate all catering activities across Arena's portfolio of seven racecourses. This decision was based on the belief that catering is a core element of both the racing and non-racing customer experiences and that complete ownership of one of the key aspects of these experiences will enhance and contribute to the long term success of Arena and each of its racecourses. Arena will start to take over the on-course catering contracts later this month.

On the back of these strategic developments, Arena has been able to improve on its communication with the investment community, which has been reflected in considerably increased analyst coverage of the company.

The financial results achieved in 2006 have also helped to confirm the **operating improvements** that have already been achieved. Turnover increased by 11.1% to £45.3m (2005: £40.7m) and profit before tax increased by 29.6% to £5.8m (2005: £4.5m).

Within these results, the **racecourse division** performed solidly, increasing its profits to £8.7m (2005: £8.0m). This is a very creditable performance, particularly taking into account the impact of the World Cup on attendances in the middle of the summer, which is traditionally our busiest period, and which is estimated to have reduced profits by around £0.5m. Attendances, at 510,000, were 4.5% down on the record level in 2005 of 534,000. This reduction compares with the rest of the UK horseracing industry which saw attendances fall by around 5% (excluding Ascot related attendances). Although primarily World Cup related, our attendances in the second half remained a little softer than had been anticipated. Importantly, our number of 'corporate' customers, who provide the highest spend per head, grew by 1.3% to 48,200 (2005: 47,600). The 2006 result was also impacted by higher utility costs.

Operationally, **At The Races** ('ATR'), which is 47.5% owned by Arena, had a successful year. Arena's share of ATR's adjusted operating loss (see note 2 for details) reduced by 74% to £0.3m (2005: £1.0m) and reflects the fact that, at this level, the company operated at around **break-even** in the second half of 2006, which bodes well for 2007. Arena's share of ATR's post tax result was a loss of £0.8m (2005: loss of £1.5m). Included within this was an

exceptional charge of £0.4m (2005: £0.9m) and a tax credit of £nil (2005: £0.5m credit for consortium relief). The exceptional charges arise from two areas of litigation. Earlier this year, ATR's claim for rebates from the 30 racecourses not affiliated to it, following the termination of media rights agreements in 2004, was settled with ATR receiving a contribution of £1.0m, ATR withdrawing its claims and the courses withdrawing their counterclaim. Arena's central overhead of £2.5m (2005: £2.1m) includes a one-off cost of around £0.1m incurred in connection with this litigation (2005: £nil). ATR also incurred costs in defending an appeal by the British Horseracing Board ('BHB') against a decision in 2005 in which the judge found in favour of ATR, ruling that the BHB had abused its dominant position. The appeal decision in February 2007 surprisingly found in the BHB's favour and the exceptional charge includes a provision in relation to the decision.

Overall, **earnings per share** increased by 29.8% to 1.61p (2005: 1.24p). Adjusting for one-off gains and losses in both 2006 and 2005 in order to give a more useful indication of underlying performance (see note 4 for details), adjusted earnings per share increased by 12.9% to 1.49p (2005: 1.32p).

As a result of the strong performance this year, an interim dividend of 0.25p per share was paid in October and the Board has proposed a **final dividend** for 2006 of 0.26p per share (2005: 0.20p). This will give a total dividend in relation to 2006 of 0.51p per share – an increase of 13.3% over the 0.45p per share declared for 2005. This total dividend is covered 2.9 times by adjusted earnings per share, in line with our stated strategy. This dividend is proposed to be paid on 4 May 2007 to shareholders on the register on 30 March 2007.

I took over as Chairman from Roger Withers in May 2006 and would like to thank Roger for his dedication and professionalism during his five-years on the **Board** and the strong position in which he left the business. Martin McGann, with an extensive background in property and finance, joined the Board in June 2006 as a non-executive director.

I am extremely grateful to all of our **employees** for their dedication and hard work. Without their contribution, the successes that Arena has enjoyed would not have been possible. Their focus and determination to give every one of our customers the best experience possible is fundamental to the success of Arena.

**2007 has started well.** Arena has acquired an additional 12 fixtures as a result of further delay in the opening of the proposed new racecourse at Great Leighs. Arena is well positioned to acquire further fixtures should they become available. Our revised planning application for the significant development of Wolverhampton Racecourse was submitted at the beginning of February, following the City of Wolverhampton having been recommended for one of the new 'small' casino licences by the Casino Advisory Panel. We look forward to progressing with this application during 2007.

The UK leisure industry is a dynamic marketplace and, within this, the UK horseracing industry is no exception. I am confident that, in terms of its personnel and the policies that it is pursuing, Arena is well placed to capitalise on the exciting **value enhancing opportunities** that it possesses, thereby helping the racing industry as a whole to move forward and continuing to deliver a growing earnings stream for its shareholders.

Arena looks forward to the future with confidence.

**Raymond Mould**  
*Chairman*  
28 February 2007

## Chief Executive's statement and review of operations

2006 has been a successful year for Arena, particularly with regard to the many exciting growth opportunities within the business.

In my statement last year, I set out Arena's strategy for generating added value for its shareholders from our asset base. This can be summarised as:

- Deliver consistent profit growth through the provision of excellent services and facilities to our customers and the greater utilisation of our assets on both race days and the many days in between.
- Invest in new or expanded profit generating opportunities on our racecourses that compliment our existing activities.
- Realise value from any surplus or under-utilised land within our 1,070 acres of freehold land.
- Build on our core strengths, adding value through acquisitions where appropriate. Such acquisitions will be opportunistic in their nature.

Underlying this strategy are Arena's core values of *passion*, *innovation* and *excellence*. Significant advances were made in the year, particularly in the first two areas.

Throughout 2006, Arena owned and operated six racecourses at Royal Windsor, Lingfield Park, Wolverhampton, Southwell, Folkestone and Worcester. Our seventh racecourse, at Doncaster, was closed as it undergoes a major redevelopment, with the majority of its fixtures transferred around the Arena group. These courses typically stage around 25% of all horseracing in the UK. Arena's skills are very much in venue management, providing a great product and a high quality of service for its customers.

The media rights associated with our racing product have great commercial value and it is through our At The Races joint venture that we seek to derive as much value for these rights as possible.

### **Racecourse division**

The Racecourse division made an operating profit of £8.7m (2005: £8.0m). This was achieved despite a considerable impact on attendances caused by the World Cup in the traditionally busiest summer period. We estimate that the attendance related impact of the World Cup was to reduce profits by around £0.5m. 2006 was also impacted by higher utility costs, with the increase estimated at around £0.2m.

Total attendance in 2006 at our six operating courses of 510,000 was 4.5% down on the record level in 2005 of 534,000. Whilst primarily World Cup related, attendances in the second half were a little softer than had originally been anticipated. This reduction compares with the rest of the UK horseracing industry which saw attendances fall by around 5% (excluding Ascot related attendances). Importantly, our number of 'corporate' customers, who provide the highest spend per head, grew by 1.3% to 48,200 (2005: 47,600). Within an environment of reduced attendance levels, this was a pleasing result, reflecting our focus on this important customer base; one that not only generates the highest spend per head, but also offers a market that we believe has strong growth potential.

A key requirement of this division, particularly with its three all-weather racecourses, is for greater utilisation of its assets. During 2006, we again staged a record number of fixtures at 353 (2005: 324), representing 26% of the UK horse racing fixture list. These fixtures featured a total of 2,388 races (2005: 2,172), again equating to around 26% of the UK total. 19 of these fixtures were staged at very short notice due to the delayed opening of the new

racecourse at Great Leighs and a further five were staged as a result of Ascot's rebuilding works in the first half of the year. Wolverhampton Racecourse, with its floodlit all-weather surface, staged almost one-third of all our fixtures at 111 (2005: 91). The benefit obtained from the additional fixtures in the second half of the year mitigated the reduced attendances in the summer.

In 2007, Arena is currently scheduled to stage 347 fixtures, with this number expected to rise in 2008 to around 353. Arena is well positioned to acquire further fixtures should they become available during the course of any year.

Throughout 2006, Doncaster Racecourse was closed for redevelopment. The majority of its 29 fixtures were transferred to other Arena racecourses, although its flagship event, the St Leger festival, was very successfully staged for one year only at York. The success of the latter gives great reassurance that the crowds will return in ever greater numbers to the new Doncaster Racecourse when it re-opens later this year. Ladbrokes are the sponsor of the St Leger itself, the oldest classic race in the world. We are delighted that this relationship has been extended for a further four years through to 2011.

Arena provided record levels of prize money in 2006, with owners benefiting from a 19.3% increase in prize money to £14.6m (2005: £12.2m). Both years included significant contributions to fixtures transferred from Ascot.

The Racecourse division's long-term aim is to deliver consistent profit growth through the provision of great product, superior quality service to our customers and the greater utilisation of our assets on both race days and the many non-race days in between. Major advances were made this year.

As part of Arena's drive towards greater efficiency and as a result of the scale of our operations as the UK's leading operator of horseracing fixtures, we review where cost savings can be made and services brought in-house, thereby avoiding the need for extensive set-up costs on each raceday. Early in 2006 the 'camera patrol' operation was successfully brought in-house, augmenting the 'photofinish' and 'starting stalls' operations which had similarly been brought in-house in 2005. In these areas of operation, the service can be provided much more efficiently through the investment in our own, racecourse-based staff and equipment, and this has been achieved without impacting on the quality of the service provided.

A review was undertaken of the provision of catering services on our racecourses and, in particular, the direction this should take in the future. The review was prompted by the expiry at the end of March 2007 of the current contracts with Letheby & Christopher covering all of our racecourses. Catering is a fundamental part of the customer experience on a racecourse and, in recent years, it has become a core aspect of a successful and enjoyable day at the races. We take the view that core activities should not be outsourced – only a dedicated, in-house operation can provide the passion, innovation and excellence that we demand for the benefit of our customers. On-course catering is also an area that we believe is capable of improvements in both service to the customer and quality of food. As a consequence, the decision was taken to set up a new catering division within Arena which will take over the direction, management and operation of all catering activities across Arena's portfolio of seven racecourses from the end of March 2007. It is expected that, over the next few years, the division will work with our racecourse managers to significantly improve the current food and beverage offering to our customers, thereby increasing repeat business and spend per head, with the consequent increase in bottom line profitability. We have now recruited a hugely enthusiastic and experienced central catering management team who relish the opportunity that has been created, of building a catering company whose objectives are perfectly aligned with those of the venue, namely customer satisfaction and the generation of profitable growth.

We also reviewed the introduction of an integrated ticketing and admission system into our racecourses to both ensure that admissions procedures are standardised and tightened and that we capture a greater level of information on our customers for marketing purposes. The new ticketing system has been introduced at Doncaster and was successfully launched with the sale on 1 February 2007 of tickets for the 2007 St Leger festival. This ticketing system plus the physical admission system will be introduced across the Arena group during the course of 2007 and it is expected that it will comfortably exceed our criteria for return on investment.

We also undertook a review of our websites, which culminated in the launch of a completely new suite of websites for Arena and each of its racecourses. These websites now profile the extensive range of facilities and activities on our racecourses in a very clear and user-friendly format. The new Doncaster website played a major role in the successful sales launch of this year's St Leger festival.

In December, we simultaneously entered into a new five year agreement with Bookmakers' Afternoon Greyhound Service ('BAGS') for the supply of our live horseracing pictures to Britain's licensed betting shops and into new sponsorship arrangements with various individual bookmakers. These new contracts commenced on 1 January 2007 and replaced the previous five year contract with BAGS that had commenced in 2004. The combined value of these contracts over the five year period is estimated at around £55 million. For comparison purposes, Arena received £8.8 million from the same sources in 2006. There are no additional costs to Arena associated with the operation of these new contracts.

#### Racing industry developments:

The uncertainty over the future of the Levy, which is the major source of funding for the UK racing industry, was resolved with the UK Government's announcement in December of the Levy's extension until such time as a secure and adequate alternative commercial funding arrangement can be identified. In 2006, Arena received £20.0m from the Levy (2005: £16.1m), representing 44% of our turnover (2005: 40%), the vast majority of which is used to fund prize money payments. The majority of the increase in 2006 arose from the increased number of fixtures staged during the year and the higher levels of levy payment receivable in respect of Doncaster race meetings. In addition, responsibility for certain regulatory costs has passed from the Levy Board to the racecourses, together with the corresponding funding. As a consequence, the majority of this increase was matched by a similar increase in our 'costs of sale'.

The method for distributing Levy funds is currently being re-evaluated. We hope for a more fair, equitable and commercial distribution mechanism to be introduced; one in which there is an increased emphasis on both betting turnover and betting gross profits and whereby a racecourse receives a greater proportion of its Levy income based on the amount of Levy that its races actually generate.

The related modernisation of the racing industry is now close to conclusion. The separate regulatory and governance functions will be combined into a new, single body - the British Horseracing Authority ('BHA') - which is expected to come into effect in mid-2007. I am delighted that Ian Renton, Arena's Racing Director, was elected to the board of the BHA as the representative of the UK's 59 racecourses. Racing Enterprises Limited will be established as the industry's commercial entity, jointly owned by the UK racecourses and the Horsemen's Group.

The Gambling Act 2005, which comes into effect later in 2007, will allow the evening opening of betting shops, which in turn has allowed for an expansion of the fixture list. Arena has gained additional fixtures in the second half of 2007 and, in due course, would expect to receive further fixtures in the first three months of 2008. These fixtures will be held at our

floodlit Wolverhampton Racecourse which, with its newly re-launched viewing restaurant, will look to attract a new, midweek evening crowd to horseracing.

A bidding process for the acquisition of fixtures on a leasehold basis was introduced in 2005. In the bidding for 2007 fixtures conducted in June 2006, Arena acquired 66 fixtures on a mixture of one, two and three year leases, with a resultant annual prize-money commitment of £813,000 (2005: 66; all one year leases; prize money commitment £418,000). We were happy with this outcome, given the increased competition for these fixtures, particularly from Kempton Park, with its new floodlit all-weather track, and the promised all-weather racecourse at Great Leighs. We have subsequently acquired a further 12 fixtures, at negligible cost, for the early part of 2007 following further delays in the opening of Great Leighs. As a consequence, Arena is now scheduled to stage 347 fixtures in 2007 (2006: 357), out of 1,415 in the UK (2006: 1,393), maintaining our position of staging around one-quarter of all racing in the UK. Arena is well positioned to acquire further fixtures should they become available during the course of this year.

A key objective for 2006 was for the extension of 48-hour declarations to all UK flat racing as a prerequisite for UK racing securing greater international distribution of its product. This extension was achieved in August 2006 and has allowed UK racing to start to compete with its international counterparts on a level playing field and thereby begin the process of maximising its revenue potential in overseas markets.

### **At The Races**

Arena owns a valuable portfolio of media rights in the form of the races staged at its courses. This value is delivered through At The Races ('ATR'), a joint venture in which Arena has a 47.5% shareholding, together with BSkyB (47.5%) and Ascot Racecourse (5%).

ATR has media rights agreements with 30 UK racecourses (including the proposed new racecourse at Great Leighs), providing ATR with the exclusive right in 2007 to broadcast nearly 60% of all UK fixtures, and also exclusive rights to broadcast racing from all 27 Irish racecourses and thereby over 250 Irish horseracing fixtures a year. ATR broadcasts more than 1,000 UK and Irish meetings each year.

ATR maximises the value of the media rights licensed to it by making its racing product as widely available as possible, both domestically and internationally. It generates revenue through both the facilitation of bets placed with its betting partners and the driving of ancillary revenues such as sponsorship and advertising.

At the operating level, ATR progressed well during 2006. ATR experienced a 22.9% growth in turnover to £13.4m (2005: £10.9m). As a consequence, Arena's share of ATR's adjusted operating loss reduced by 74% to £0.3m (2005: £1.0m) and reflects the fact that, at this level, the company operated at around break-even in the second half of 2006. It is important to note that ATR's profits arise after making annual payments to ATR's racecourse partners of around £2.5m. Arena receives income from ATR within its turnover of around £1.5m each year.

During 2006, the ATR television channel remained the UK and Ireland's most watched dedicated horseracing channel, with up to 1.45m individual viewers per month (2005: 1.2m) and an average of 50,000 people watching at any time during live racing. The channel also had an average daily audience reach of over 200,000 different individuals. On one day alone, 420,000 different individuals tuned into the channel. The re-opening of Ascot in May provided a boost to the business, with nearly 800,000 different individuals tuning in during the Royal Meeting. Innovations to the television service include the introduction of an 'L bar' on the main broadcast channel for the continual provision of racing and betting information during live programming and commercial breaks, and the launch of ATR Active, which offers a second video channel to Sky subscribers behind the red button. The channel broadcasts 24-

hours a day and is free to view within basic subscription packages. It is currently available to over 11 million multi-channel homes across the UK and Ireland through Sky, Virgin Media and NTL Ireland. A successful year was completed with ATR being named "Best Specialist Channel" at the 2006 *Broadcast Digital Channel Awards*. The judges noted that "At The Races targets its audience with exactly what it wants to see" and praised the channel for its financial success, "fresh" content and its ability to make horseracing accessible to viewers. As further testament to the continuing high standards of the ATR presentation team, Mike Cattermole was named Broadcaster of the Year by the Horserace Writers and Photographers Association, becoming the second ATR team member to win the award following Robert Cooper's victory in 2005.

ATR's website, attheraces.com, which is run in partnership with SkySports.com, is the UK's fastest growing domestic horseracing website. The number of page impressions rose by 82% to 357m (2005: 196m) and the number of monthly unique users increased by 67%. In total, there were 4,793,829 monthly unique users of attheraces.com across the year. It now has around 400,000 average monthly unique users (2005: nearly 300,000) and over 33 million monthly page impressions. Recent statistics reveal that the ATR website is the UK's eighth most visited sports betting website.

With 48-hour declarations having been secured in August 2006, ATR was immediately able to commence the supply of UK racing product to Australia. This was followed by a long-term deal for the reciprocal provision of racing content between the US and the UK and Ireland with US broadcaster, TVG. TVG is the market leading broadcaster of live horseracing in the United States and is the official TV and interactive wagering partner of the National Thoroughbred Racing Association. TVG is available in nearly 20 million US households, in all 50 states. In certain of these states, TVG operates the country's leading advanced deposit wagering service which allows its customers to bet online, by automated telephone, mobile phone or interactive television. In 2005, almost \$400 million was bet through TVG. ATR's UK and Irish racing will be broadcast exclusively on TVG on a daily basis, with a potential audience of nearly 20 million households. ATR will also become TVG's exclusive broadcast partner in the UK, showing racing from the best US tracks on a daily basis. ATR generates commissions from both bets placed on US races with UK bookmakers that are commingled into the US pools and from bets placed in the US on ATR's races. The reciprocal provision of racing content started on 3 January 2007 and so it is still too early to determine the level of profitability that will arise from this arrangement.

Other important international territories include Italy and South Africa. On 5 January 2007, racing from Wolverhampton generated a record €1.1m in turnover on the Italian tote, netting Arena around £10,000 in media rights income.

With the second half of 2006 having achieved a break-even position, ATR is set to move into profit in 2007. It is in a strong financial and operational position and is well positioned to build further on the successes achieved in 2006.

## **Developments**

Significant progress was made in 2006 in the development of our major new or expanded profit generating opportunities. A number of these require considerable capital expenditure and planning permission from the relevant local authority. In evaluating these major investments, we look for a 15% return on the net cash cost although, in exceptional circumstances, we may accept a return as low as 10% which is, nevertheless, still well ahead of our cost of capital.

The first of these projects that will come to fruition is the redevelopment of Doncaster Racecourse. Doncaster Racecourse is one of the UK's major racecourses, hosting the opening race of the flat racing season, as well as the last classic of the season - the 230-year old St

Leger. The St Leger is currently sponsored by Ladbrokes and is the oldest classic horserace in the world. The £32m redevelopment commenced in January 2006 with the demolition of the old, outdated Yorkshire Stand and exhibition hall. These will be replaced by state-of-the-art facilities which will provide Doncaster's customers with the quality of environment that they should expect from such a prestigious racecourse. Elsewhere around the racecourse, there will be a refurbishment of the adjacent St Leger Stand and construction of a new stable block next to the racecourse, with an adjoining new stable lads' hostel. We remain on schedule to re-open in August 2007 and to stage the Ladbrokes St Leger on 15 September. As the project has progressed, additional investment opportunities have arisen. The original works assumed that a contract caterer would finance the installation of catering equipment to the value of £1.0m in return for a 10-year contract. This contract will now be undertaken by Arena's new catering division which will also fund the purchase of the equipment. In addition, two further potential catering outlets are being evaluated which could have a combined cost of a further £0.75m. Once the redevelopment is complete, an 81% owned Arena subsidiary (with the local council owning the remaining 19%) will operate Doncaster Racecourse on a 99-year lease. Over the first 30 years of the racecourse's operation following its redevelopment, Arena will receive 92.5% of the profits, with the local council receiving the balance.

In the second phase of Doncaster's development, a detailed planning application for a combined 120-bedroom four-star hotel with associated restaurant and bar areas on the lower floors and 34 residential apartments on the upper floors, for which underground car parking facilities will also be provided, was submitted in November 2006. The gross cost of the development is estimated at around £17.5m which, after the sale of the residential apartments, is expected to result in a net cost of around £10.5m. The preferred operator of the hotel is Millennium & Copthorne. Our aim is that, subject to the receipt of planning permission, construction will be complete for the 2008 St Leger festival. The new hotel will operate closely with the extensive new facilities on the Racecourse, for the benefit of both, and will play an integral role in helping to transform Doncaster Racecourse into a world class leisure, business and racing venue.

Following the refurbishment of the main grandstand and provision of a new all-weather track at Lingfield Park within the last few years, in March 2006 Arena submitted an outline planning application for a redevelopment of part of the Racecourse and a detailed planning application for the conversion of the existing leisure and squash club into 22 residential apartments, together with the provision of a further three houses within its grounds. The improvements will complete the transformation of the Racecourse, with the overall scheme complementing the Racecourse's picturesque Green Belt surroundings and enhancing the customer experience. A total of 22 buildings will be demolished, to be replaced by a new integrated leisure building incorporating a 120-bedroom hotel, a new golf club house, extensive new leisure facilities including a leisure club with a swimming pool, restaurant and bars, as well as improvements to the racing facilities. In July, the local council resolved to grant planning permission for both applications and in September, the Government Office for the South East confirmed the applications were not to be called-in by the Secretary of State. As a consequence, planning permission for the significant improvements at the Racecourse has now been secured, subject to finalising legal agreements with the Council, which should occur shortly. A reserved matters application should be submitted late in the first half of 2007. The estimated net cost of the two related developments is in the region of £25m.

The Doncaster and Lingfield projects were our priorities during 2006. We nevertheless continued to review the development opportunity at Royal Windsor Racecourse. We believe that a development on the Racecourse is important in helping to ensure its future success. We remain committed to only taking forward a planning application that has a realistic possibility of achieving full planning consent, considering the sensitive nature of the site in planning

terms due to its Green Belt location. It is expected that the scale of development that we will seek will be finalised during 2007.

We have stated a desire to build on our core strengths, adding value through acquisitions where appropriate, but have also made it clear that Arena has a large number of value-enhancing growth opportunities and these remain our prime focus. For this reason, we view ourselves as being opportunistic with regard to acquisitions. During the early part of 2006, we played a major role in a consortium of racing interests that attempted to buy the Tote from the UK Government. An offer was made that was ultimately not accepted, at which point, Arena withdrew from the process. A second consortium has now lodged a bid for the Tote that appears to match the Government's asking price. The Racecourse Association is part of this consortium and is the trade body for the UK racecourses. As a consequence, if the bid is successful, Arena will have a small interest in the privatised Tote, at no cost to Arena. A decision on the bid from the UK Government is expected shortly. The Tote owns 540 betting shops and has the exclusive licence to run pool betting on horseracing in the UK.

We also seek to realise value from any surplus or under-utilised land assets. A process has begun that involves reviewing the future of Folkestone Racecourse and in particular the surplus land associated with it. Some preliminary discussions have taken place with the relevant local authority. This will be a long term project and it is likely that the benefits of this project, if any, will be seen in the medium to longer term. A review of the surplus land at Lingfield Park will commence once the hotel project is underway.

Throughout 2006, we also worked on a new planning application for a major redevelopment of Wolverhampton Racecourse. The original plans to introduce a casino and expand the hotel were rejected in 2005 by the Office of the Deputy Prime Minister, despite support from Wolverhampton City Council, and, at that stage, we wrote-off £0.4m of costs incurred on the project. The development was viewed as negatively impacting upon the 'openness' of the Green Belt location in which it is situated. Nevertheless, the concept of the extension and the synergy between the component parts were supported by the local planning authority, the Call-In Inquiry Inspector and the Secretary of State. A detailed planning application for the revised scheme was submitted to Wolverhampton City Council in February 2007. The new application incorporates a fundamental redesign to overcome the reasons for the previous refusal. The development includes the expansion of the current hotel from 54 to 170-bedrooms, the construction of a new conference, exhibition and banqueting suite, a new leisure facility including a swimming pool, and the incorporation of a casino within the Racecourse, thereby creating the UK's first 'racino'. The proposed expansion of facilities will play a crucial role in securing the long-term future of Wolverhampton Racecourse and will further enhance its status as a leading racing, conferencing and leisure destination for the West Midlands region. We are optimistic that the revised plans have fully addressed the cause of the earlier failure. The cost of the development is estimated at £23 million, and will generate up to 280 additional jobs once fully operational.

In a related development, the City of Wolverhampton was recently recommended as a location for a 'small' casino by the Casino Advisory Panel. Wolverhampton Racecourse played a prominent role in the City's application and the proposed racino is physically capable of accommodating a small casino. The Panel commented that: "Wolverhampton well satisfies all of our criteria and if the casino happens to end up at the racecourse it would add to its uniqueness and provide an interesting and unusual social impact test". Arena acknowledges that the Panel's recommendations have to be endorsed by Parliament and that it will be Wolverhampton City Council that determines the granting of the casino premises licence. The integrated nature of what we are proposing, together with the jobs that are both safeguarded and indeed created, would make a casino at Wolverhampton Racecourse a very exciting addition to the City of Wolverhampton. We therefore naturally hope that

Wolverhampton Racecourse will be chosen as the best site within Wolverhampton for such a casino, although do not expect a decision to be announced before the end of 2007.

Also at Wolverhampton Racecourse, we are currently in the middle of a £0.6m refurbishment of the 370-seat racecourse viewing restaurant. This restaurant had previously been one of the busiest and most popular restaurants in racing, with average occupancy on a Saturday evening very close to full capacity. However, it has become dated in all aspects of the customer offering and the number of customers has decreased considerably. The refurbishment will completely re-invigorate the customer experience. Air conditioning will be introduced; granite tables and leather chairs will be provided throughout; and the top bar, betting and entrance area will be expanded in order to create a larger, multi-functional space. The aim is to produce a modern, contemporary restaurant that will re-launch Wolverhampton Racecourse as a premier dining venue within the West Midlands, allowing it to attract both customers back to the Racecourse and also a wider array of events. The restaurant will re-launch on 21 April as *Horizons* and, under the management of the new Arena catering division, is expected to revive what has been an extremely popular dining experience. With typically around 95 fixtures each year, including the increased midweek evening opportunities provided by the introduction of the Gaming Act 2005, *Horizons* will not only generate a return in excess of the desired 15% for Arena projects, but it will also serve as a fitting complement to the proposed hotel and casino development at the Racecourse.

Overall, Arena possesses a number of exciting growth opportunities. 2007 will be a crucial year in the delivery of a number of them and I am optimistic that the Company is well placed to achieve this.

**Mark Elliott**  
*Chief Executive*  
28 February 2007

**CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Notes	2006 £'000	2005 £'000
<b>Turnover</b>	2	<b>45,259</b>	40,747
Cost of sales		(30,033)	(26,235)
<b>Gross profit</b>		<b>15,226</b>	14,512
Other operating income		133	-
Profit on sale of investments		-	834
Administrative costs		(9,031)	(8,619)
<b>Profit from operations</b>	2	<b>6,328</b>	6,727
Share of post tax results of joint venture	2	(812)	(1,529)
Share of post tax results of associate		-	17
Reversal/(creation) of provision against investment in associate		100	(315)
<b>Profit before interest and taxation</b>		<b>5,616</b>	4,900
Finance expense		(848)	(761)
Finance income		353	350
Other finance gain		696	-
Net finance income/(expense)		201	(411)
<b>Profit before taxation</b>	2	<b>5,817</b>	4,489
Taxation	3	-	-
<b>Profit for the year</b>		<b>5,817</b>	4,489
Attributable to:			
- Equity shareholders of the parent company		5,850	4,489
- Minority interest		(33)	-
		<b>5,817</b>	4,489

<b>Earnings per share</b>	4	Pence	Pence
Basic earnings per share		1.61	1.24
Diluted earnings per share		1.60	1.23

<b>Changes in shareholder's equity</b>		2006 £'000	2005 £'000
Total recognised income and expense		5,817	4,489
Share-based payment expense		34	5
Issue of new ordinary shares for cash		287	71
Dividends paid	5	(1,639)	(1,988)
		<b>4,499</b>	2,577
Total equity at the beginning of the period		59,773	57,196
Total equity at the end of the period		<b>64,272</b>	59,773
Attributable to:			
- Equity shareholders of the parent company		64,305	59,773
- Minority interest		(33)	-
		<b>64,272</b>	59,773

**CONSOLIDATED BALANCE SHEET  
AT 31 DECEMBER 2006**

	Notes	2006 £'000	2005 £'000
<b>Non-current assets</b>			
Property, plant and equipment		86,054	70,615
Intangible assets		5,596	5,596
Investment in joint venture:			
Share of gross assets		1,770	3,188
Share of gross liabilities		(5,368)	(5,974)
		(3,598)	(2,786)
Goodwill in respect of joint venture		1,580	1,580
Loans to joint venture		3,976	3,284
		1,958	2,078
Investment in associate		100	-
<b>Total non-current assets</b>		<b>93,708</b>	<b>78,289</b>
<b>Current assets</b>			
Inventories		17	19
Trade and other receivables		6,454	4,785
Other financial assets		58	-
Cash and cash equivalents		50	69
<b>Total current assets</b>		<b>6,579</b>	<b>4,873</b>
<b>Total assets</b>		<b>100,287</b>	<b>83,162</b>
<b>Current liabilities</b>			
Bank overdraft		(2,920)	(3,267)
Trade and other payables		(11,664)	(9,368)
Other financial liabilities		(135)	(315)
Corporation tax liability		-	-
<b>Total current liabilities</b>		<b>(14,719)</b>	<b>(12,950)</b>
<b>Non-current liabilities</b>			
Financial liabilities		(18,641)	(7,632)
Accruals and deferred income		(2,655)	(2,807)
<b>Total non-current liabilities</b>		<b>(21,296)</b>	<b>(10,439)</b>
<b>Total liabilities</b>		<b>(36,015)</b>	<b>(23,389)</b>
<b>Total net assets</b>		<b>64,272</b>	<b>59,773</b>
<b>Equity</b>			
Share capital	6	18,210	18,100
Share premium	7	223	46
Merger reserve	7	5,417	5,417
Retained earnings	7	40,455	36,210
<b>Equity attributable to shareholders of the parent company</b>		<b>64,305</b>	<b>59,773</b>
Minority interest	7	(33)	-
<b>Total equity</b>		<b>64,272</b>	<b>59,773</b>

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Notes	2006 £'000	2005 £'000
<b>Operating activities</b>			
Profit for the year		5,817	4,489
Adjustments for:			
Depreciation		2,051	1,847
Impairment provision – Wolverhampton development		-	400
Share-based payment expense		34	5
Net finance (income)/expense		(201)	411
Share of loss of joint venture		812	1,529
Share of income of associate		-	(17)
(Reversal)/creation of provision against investment in associate		(100)	315
Profit on sale of property, plant and equipment		(14)	(69)
Profit on sale of SIS shares		-	(834)
Taxation provision released		-	(5)
Grant amortisation		(53)	(53)
Operating profit before changes in working capital and provisions		8,346	8,018
Increase in trade and other receivables		(1,165)	(881)
Decrease in inventories		2	11
Decrease in trade and other payable		(1,463)	(961)
Cash flows from operating activities		5,720	6,187
<b>Investing activities</b>			
Purchases of property, plant and equipment		(14,505)	(4,409)
Sale of property, plant and equipment		144	184
Proceeds from sale of SIS shares		-	1,179
Loans to joint venture		(692)	(174)
Investment in Doncaster Racecourse Management Co Ltd		-	(718)
Investment in joint venture		-	(206)
Interest received		353	231
		(14,700)	(3,913)
<b>Financing activities</b>			
Issue of ordinary shares		287	71
Proceeds from bank and other borrowings		11,812	-
Repayment of loans		(302)	(1,326)
Repayment of finance lease creditors		(2)	(14)
Interest paid		(848)	(725)
Dividends paid	5	(1,639)	(1,988)
		9,308	(3,982)
Increase/(decrease) in cash and cash equivalents		328	(1,708)
Net cash and cash equivalents at beginning of year		(3,198)	(1,490)
Net cash and cash equivalents at end of year	8	(2,870)	(3,198)

## Notes to the accounts

1. The figures for the year ended 31 December 2005 are based on the accounts which have been filed with the Registrar of Companies and have been prepared under International Financial Reporting Standards ('IFRS') as adopted by the EU. The auditors' report on the accounts 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.

## 2. Additional profit disclosure

	Turnover		Profit/(loss)	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Racecourse operations	45,259	40,747	8,701	8,021
Central costs	-	-	(2,506)	(2,128)
Turnover and profit from operations before one-off items	45,259	40,747	6,195	5,893
One-off items:				
Other operating income – release of unclaimed share proceeds on purchase of subsidiary undertaking			133	-
Profit on sale of SIS shares			-	834
Profit from operations			6,328	6,727
Share of post tax results of At The Races:				
Operations			(269)	(1,042)
Finance costs			(158)	(89)
Exceptional items			(434)	(862)
Tax credit			49	464
			(812)	(1,529)
Share of post tax results of associate:			-	17
Reversal/(creation) of provision against investment in associate			100	(315)
Finance expense			(848)	(761)
Finance income			353	350
Finance gain re: present value of interest free loans on initial recognition			638	-
Other finance gain – derivatives			58	-
Net finance income/(expense)			201	(411)
Profit on ordinary activities before taxation			5,817	4,489
Taxation			-	-
Profit for the year			5,817	4,489
Attributable to:				
- Equity shareholders of the parent company			5,850	4,489
- Minority interest			(33)	-
			5,817	4,489

Profits and losses from operations are stated before any intra-group management charges. 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 and public relations costs.

### 3. Taxation

There is no current year tax charge (2005: no tax charge) due to the availability of tax losses. At 31 December 2006, corporation tax losses representing trading and non-trading losses of £57,148,000 (2005: £54,777,000) were available for utilisation in future years subject to agreement with HM Revenue & Customs.

### 4. Earnings per share

<b>Earnings</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Profit for the year attributable to equity holders of the parent company	<b>5,850</b>	4,489
Adjustments:		
Finance gain re: present value of interest free loans on initial recognition	<b>(638)</b>	-
Other operating income – release of unclaimed share proceeds on purchase of subsidiary undertaking	<b>(133)</b>	-
Impairment provision – Wolverhampton development	-	400
Reversal/(creation) of provision against investment in associate	<b>(100)</b>	315
Arena share of At The Races exceptional items	<b>434</b>	862
Arena share of At The Races consortium relief	-	(464)
Profit on sale of SIS shares	-	(834)
Adjusted profit for year used in calculation of adjusted earnings per share	<b>5,413</b>	4,768

An adjusted earnings figure is included in the Chairman's statement as, in the opinion of the Directors, this gives a more useful indication of underlying performance.

<b>Weighted average number of shares</b>	<b>2006</b>	<b>2005</b>
	<b>No.'m</b>	<b>No.'m</b>
Weighted average number of shares used in the calculation of basic and adjusted EPS	<b>364.12</b>	361.52
Dilutive potential of ordinary shares:		
Employee share options	<b>1.00</b>	2.20
Weighted average number of shares used in the calculation of diluted EPS	<b>365.12</b>	363.72

Certain employee options have not been included in the calculation of diluted EPS because their exercise is contingent on the satisfaction of specific criteria that had not been met at the end of the year. In addition, certain employee options have also been excluded from the calculation of diluted EPS as their exercise price is greater than the weighted average share price during the year (i.e. they are out-of-the-money) and therefore would not be dilutive. The total number of share options excluded in 2006 was 7.25 million (2005: 4.72 million).

### 5. Dividends

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Final dividend of 0.2 pence (2005: 0.3 pence) per ordinary share proposed and paid during the year relating to the previous year's results	<b>728</b>	1,084
Interim dividend of 0.25 pence (2005: 0.25 pence) per ordinary share paid during the year relating to the current year's results	<b>911</b>	904
Dividends paid in the year	<b>1,639</b>	1,988

The directors have proposed a final dividend of 0.26 pence (2005: 0.2 pence) per share totalling £947,000 (2005: £728,000). This dividend has not been accrued at the balance sheet date.

## 6. Share capital

	2006 Number	Authorised		
		2006 £'000	2005 Number	2005 £'000
Ordinary shares of 5p each	429,353,724	21,468	429,353,724	21,468

  

	2006 Number	Issued and fully paid		
		2006 £'000	2005 Number	2005 £'000
At beginning of the year	361,995,535	18,100	361,495,535	18,075
Exercise of employee share options	2,206,472	110	500,000	25
At end of the year	364,202,007	18,210	361,995,535	18,100

## 7. Reserves

2005	Share Premium account £'000	Merger reserve £'000	Retained earnings £'000	Minority interest £'000
At 1 January 2005	-	5,417	33,704	-
Exercise of employee share options	46	-	-	-
Profit for the year	-	-	4,489	-
Dividends paid	-	-	(1,988)	-
Share-based payment expense	-	-	5	-
At 31 December 2005	46	5,417	36,210	-

  

2006	Share premium account £'000	Merger reserve £'000	Retained earnings £'000	Minority interest £'000
At 1 January 2006	46	5,417	36,210	-
Exercise of employee share options	177	-	-	-
Profit for the year	-	-	5,817	-
Minority interest	-	-	33	(33)
Dividends paid	-	-	(1,639)	-
Share-based payment expense	-	-	34	-
At 31 December 2006	223	5,417	40,455	(33)

## 8. Statement of net debt

	At 31 December 2006 £'000	At 31 December 2005 £'000
Cash and cash equivalents	50	69
Bank overdrafts	(2,920)	(3,267)
Net cash and cash equivalents	(2,870)	(3,198)
Bank loans	(14,750)	(7,000)
HBLB loans	(3,725)	(644)
Finance lease – Worcester Racecourse	(301)	(303)
Closing net debt	(21,646)	(11,145)