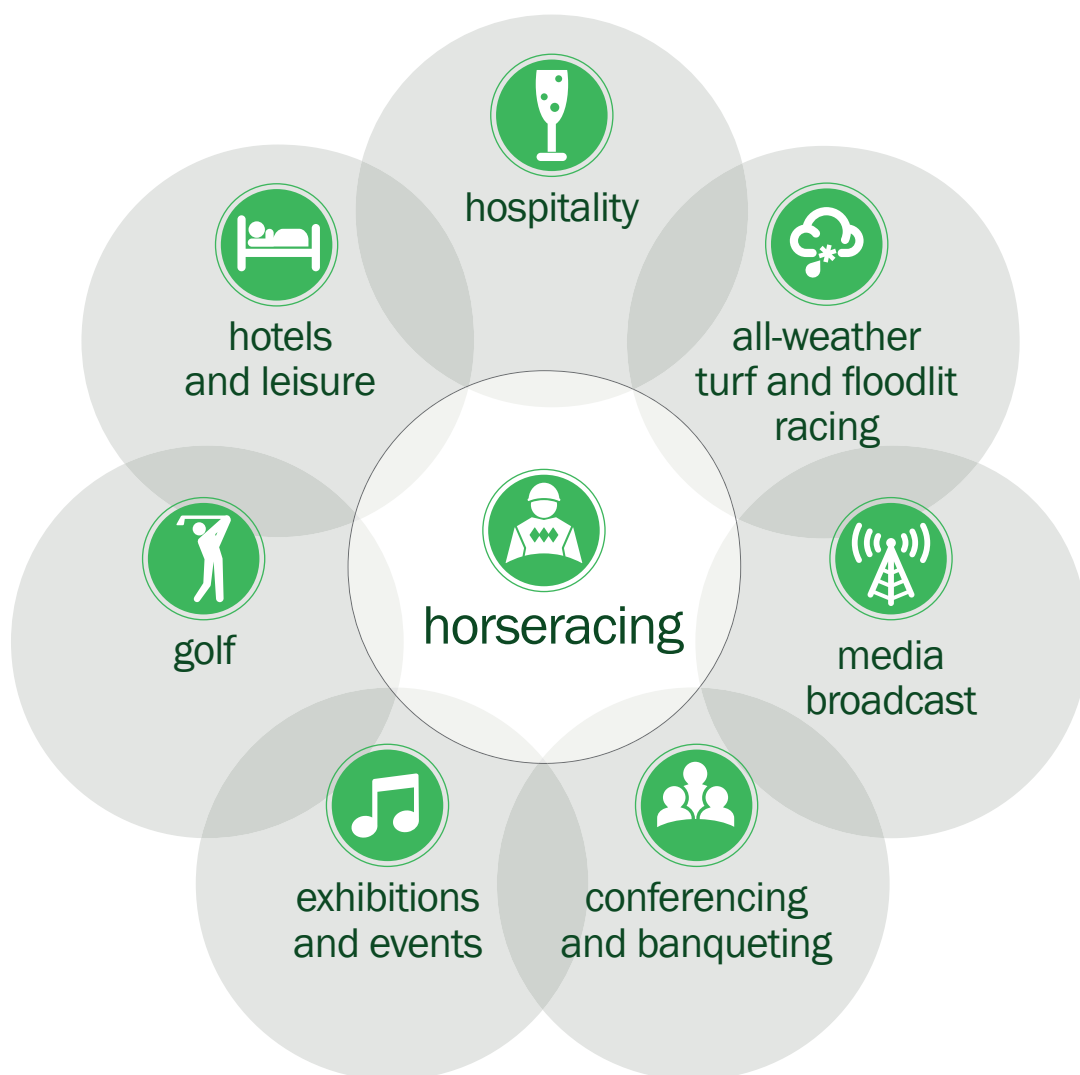


# More than a day at the races



Horseracing lies at the heart of Arena's activities. Our portfolio of racecourse assets provides a solid base for the future development of the Group into a range of complementary, income-generating activities that enhance our racing business and allow the expansion of our racecourses into 365 days a year operations.



# 2010 Highlights

Revenue

**£63,983,000**

2010	£63,983,000
2009	£65,239,000

Adjusted profit before  
interest and tax

**£5,414,000**

2010	£5,414,000
2009	£4,904,000

## Operational highlights

- Average attendance increased by 4.2% to 1,800 ahead of the market average growth of 3.4%
- Hospitality attendance increased by 17.1% to 45,200
- At The Races delivered a 163% increase in post-tax contribution of £1.4m

## Development highlights

- Lingfield Park Marriott Hotel and Country Club opened in May 2010 after a £30m development programme
- Masterplan proposal for redeveloping Folkestone Racecourse submitted, incorporating 800 residential units

## Future growth

- 353 fixtures secured for 2011
- 2012 brings the start of the new SIS media rights agreement, with an estimated total value of £106m and an uplift in annual value of £10m
- Levy determination by Government secures funding for 2011 and sets a platform for future stability
- Complementary activities will produce a greater share of future revenues through hotel, conference and events and catering services

## Overview

- 01 2010 Highlights
- 02 At a Glance
- 04 Chairman's Statement
- 06 Chief Executive's Statement

## Strategy

- 08 Market Overview
- 11 Strategy and Business Model
- 13 Resources
- 14 Key Performance Indicators
- 16 Principal Risks

## Performance

- 19 Review of Operations
- 22 Managing Responsibly
- 23 Financial Review

## Governance

- 25 Board of Directors and Company Secretary
- 26 Corporate Governance
- 30 Other Statutory Information
- 31 Remuneration Report

## Financial Statements

- 37 Directors' Responsibilities
- 38 Independent Auditors' Report
- 39 Consolidated Statement of Comprehensive Income
- 40 Consolidated Statement of Changes in Shareholders' Equity
- 41 Consolidated Balance Sheet
- 42 Consolidated Cash Flow Statement
- 43 Notes Forming Part of the Financial Statements
- 72 Company Balance Sheet – UK GAAP Financial Statements
- 73 Notes Forming Part of the UK GAAP Financial Statements

## Shareholder Information

- 79 Five Year Record
- 79 Analysis of Shareholders
- 80 Company Information

Overview

Strategy

Directors' Report and Business Review

Performance


Governance

Financial Statements

Shareholder Information

## At a Glance

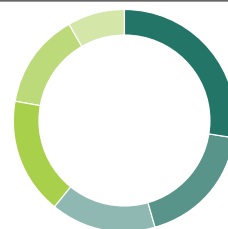
We have three core values that drive the development of our business. These core values of **passion, innovation** and **excellence** have been instrumental in developing Arena into the business it is today and will continue to drive its growth in the future.

 	<p><b>Doncaster</b> Turf flat and National Hunt racing.</p> <p>The home of the world's oldest classic horse race, the St Leger, featuring an extensive redevelopment of the racing and exhibition facilities. Hotel and residential planning permission received.</p>	 <p>Hospitality Conferencing and banqueting Exhibitions and events</p>	<p>Annual attendance (2010)*</p> <p><b>199,000</b></p> <p>Number of fixtures (2010)</p> <p><b>29</b></p>
 	<p><b>Folkestone</b> Turf flat and National Hunt racing.</p> <p>Kent's only racecourse set in beautiful scenery in the North Downs. Masterplan proposal for redevelopment submitted to the local authority.</p>	 <p>Hospitality Conferencing and banqueting Exhibitions and events</p>	<p>Annual attendance (2010)*</p> <p><b>30,000</b></p> <p>Number of fixtures (2010)</p> <p><b>18</b></p>
 	<p><b>Lingfield Park</b> All-weather, turf flat and National Hunt racing.</p> <p>Set in 450 acres of Surrey countryside, a new hotel and leisure complex opened in May 2010, creating a state-of-the-art racing, conferencing and leisure destination.</p>	  <p>Hospitality Conferencing and banqueting Exhibitions and events Hotel and leisure club Golf</p>	<p>Annual attendance (2010)*</p> <p><b>116,000</b></p> <p>Number of fixtures (2010)</p> <p><b>90</b></p>
 	<p><b>Royal Windsor</b> Turf flat racing.</p> <p>Located beside the River Thames, within sight of Windsor Castle and boasting a series of highly popular summer Monday evening race meetings.</p>	 <p>Hospitality Conferencing and banqueting Exhibitions and events</p>	<p>Annual attendance (2010)*</p> <p><b>119,000</b></p> <p>Number of fixtures (2010)</p> <p><b>26</b></p>

\* To nearest thousand.

## Analysis of revenues (£m)

Levy	17.7
Media rights (LBO)	11.6
Admissions-related	9.8
Catering	10.7
Other raceday	8.9
Non-raceday	5.3
<b>Total</b>	<b>64.0</b>



### Southwell

All-weather, turf flat and National Hunt racing.

Friendly East Midlands venue offering a variety of racing, conferencing and golf facilities.



Hospitality  
Conferencing and banqueting  
Exhibitions and events  
Golf

Annual attendance (2010)\*

**63,000**

Number of fixtures (2010)

**76**



### Wolverhampton

Floodlit all-weather racing.

The UK's busiest racecourse and one of only two operating floodlit courses in the UK. Planning approval received to create the UK's first combined racecourse, hotel and casino complex.



Hospitality  
Conferencing and banqueting  
Exhibitions and events  
Hotel

Annual attendance (2010)\*

**67,000**

Number of fixtures (2010)

**96**



### Worcester

National Hunt racing.

A picturesque tree-lined course with a unique position on the banks of the River Severn.



Hospitality  
Conferencing and banqueting  
Exhibitions and events

Annual attendance (2010)\*

**40,000**

Number of fixtures (2010)

**17**



### At The Races

Broadcasting UK, Irish and international racing.

Award-winning media distribution business, taking UK and Irish racing to the widest possible national and international audience.



Website: [attheraces.com](http://attheraces.com)  
Television channel: 415  
International distribution through GBI Racing

TV channel average monthly reach

**1.8m**

Number of countries

**25**

\* To nearest thousand.

## Ready for growth

Arena is extremely well placed to capitalise on future growth through media rights, operational performance and further estate development opportunities.



David Thorpe  
Chairman

### Strength of the business

- Ownership of racing media rights that are leveraged through UK and international distribution
- Increasingly diverse income streams
- Cash-generative and well-run operating businesses
- Solid asset-backed base with opportunities for value realisation

In my first year as Chairman, I am pleased to be able to report growth in the underlying performance of our racecourse operations. We have outperformed the market in growth in average attendances, opened a new hotel, made significant progress on our Folkestone Racecourse development plan, continued the success of our catering operation and At The Races ('ATR') has taken a major step forward in its profit contribution. From 2012, the new media rights agreement with Satellite Information Services Ltd ('SIS') will increase income from media rights by an estimated £10.0m per annum and remains the obvious focus of the Group's growth story. In addition, recent major capital investments, further operational improvements and an increased return from the distribution of international media rights through ATR will provide further sustainable growth. Following the year-end we announced our first major external catering contract as provider of catering services at both the Eton Dorney and the Greenwich Park venues for the Olympic and Paralympic Games in 2012.

As a backdrop to Arena's performance and prospects, the horseracing industry has recently experienced a major reduction in the level of funding received from the Levy on bookmakers which, when coupled with conditions in the UK economy, has exerted considerable financial pressures on all of racing. The yield from the Levy is estimated to fall to £64.8m in 2010/11 as a result of the movement of internet and telephone betting 'offshore', the impact of overseas betting operators and betting exchanges. The Levy is fundamental to the support of horse racing in the UK and it is our belief that all parties should seek to maintain it in a modernised and restructured form. The recent determination by Government of the basis of the 2011/12 scheme to deliver a yield of £73.7m to £80.8m is encouraging in that it provides stability for funding at least at the current level. In the longer term, it will be important for the sustainability of the Levy for a future solution to encompass offshore operators and betting exchanges and their customers.

The Group's seven racecourses staged a total of 352 fixtures in the year to 31 December 2010 (2009: 370) with the average attendance increasing by an industry-leading 4.2% to 1,800 (2009: 1,727). Total attendance was 634,000 (2009: 639,000) including 60,000 people (2009: 53,000) attending the Ladbrokes St Leger festival at Doncaster Racecourse. Hospitality attendance in 2010 increased by 17.1% to 45,200 (2009: 38,600) which is encouraging. The UK racing industry reported total attendance across all racecourses of 5.8 million, up from 5.7 million in 2009, with average attendances up by 3.4% (2009: 0.0%).

For the full year, Arena's adjusted profit before interest and tax was £5.4m, an increase of 10.4% from £4.9m in 2009 (before a £0.4m gain on asset disposals). Arena's total revenue for 2010 was £64.0m, down £1.2m (2009: £65.2m) following a £3.8m reduction in funding from the Levy which predominantly impacted prize money in the year. Income from media rights provided into licensed betting offices ('LBOs') was consistent at £11.6m (2009: £11.6m), despite fewer fixtures being staged. Non-racing income has grown and more than half of the growth was generated by the Lingfield Park Marriott Hotel, bringing the share of revenue from activities not directly related to horseracing to 11.9% (2009: 8.7%).

Profit before tax was £3.6m (2009: £4.1m, including a £0.4m gain on asset disposals). Within this, the net finance expense was £1.8m (2009: £1.2m), the increase of £0.6m being due predominantly to the funding costs of the Lingfield Park Marriott Hotel development no longer being capitalised as part of the cost of construction following its opening in May. Basic earnings per share were 1.02p (2009: 1.16p), down 12.1%, principally as a result of this increased finance cost.

The first customers of the newly constructed Lingfield Park Marriott Hotel and Country Club were welcomed in mid-May. The hotel is the centrepiece of the £30.0m redevelopment of Lingfield Park that creates the UK's first integrated hotel, golf, leisure and racing complex. We are delighted with the physical product, service levels and overall quality of this addition to our portfolio and are excited by the prospects of this complementary asset, which we expect to reach maturity through 2012 and into 2013. Pre-opening costs in the year were £0.5m (2009: £0.2m), in-line with our expectations.

In October, Arena submitted its masterplan proposal for the redevelopment of Folkestone Racecourse to Shepway District Council ('SDC') as part of SDC's process for drawing up its new Local Development Framework. The proposal is designed to safeguard the long-term future of Folkestone Racecourse and entails a complete rebuild of the Racecourse and the introduction of approximately 800 residential units. SDC is likely to report in the middle of 2011, after which there will be an examination-in-public, which is likely to conclude in Spring 2012.

On 1 March 2010, Arena's 45.85% affiliate, ATR, commenced its joint venture, GBI Racing, which provides a unified service for the international distribution of media rights from all UK and Irish racecourses. Cost savings from this combined operation, together with associated income growth and improved performance in ATR's website and TV channel businesses, resulted in Arena's share of ATR's earnings increasing by 163% to £1.4m (2009: £0.5m). The royalty payments made directly to the Group's racecourses by ATR under the terms of the media rights agreement increased by over 40% to £2.0m (2009: £1.4m).

The Board is pleased to announce that it is proposing a maintained final dividend for 2010 of 0.38p per share (2009: 0.38p per share). In line with our stated policy, no interim dividend was paid during the year (2009: none).

I was appointed to the Board as Chairman on 19 May 2010. My predecessor, Raymond Mould, had been Chairman of Arena for four years, during which time the Group initiated its exciting real estate strategy, established a successful in-house catering function and secured a transformational agreement with SIS for the supply of media rights post-2011. On behalf of the Board, I would like to thank Raymond for his outstanding contribution to the development of Arena. There were no other changes to the Board during the year.

Since my appointment, I have come to appreciate even more the exceptional dedication and professionalism of Arena's employees. In my opinion, they are second to none in their commitment to delivering an excellent product and service and I would like to convey the thanks of the Board to each of them.

Looking forward, 2011 will be another challenging year primarily as a result of the impact of the already announced reductions in Levy funding. As a result, our expectation is that Group profitability is unlikely to see a material uplift from 2010. I have highlighted the strengths of the Arena business and my belief is that the Group is extremely well placed to capitalise on future growth through media rights, operational performance and further estate development opportunities; 2012 will be an exciting year in this respect.

**David Thorpe**

Chairman

7 March 2011

## Strategic opportunities

- Maximise the value of intellectual property rights through SIS and ATR
- Investment in major assets to continue diversification
- Leverage core functions to extract value:
  - Externally with catering; and
  - Through operational efficiencies

## Building operational excellence

In 2010 we continued to make good progress in all areas of our strategy whilst maintaining our focus on racing operations and further expanding our other income sources.



Mark Elliott  
Chief Executive

### 2010 highlights

- 352 fixtures staged, representing 25% of UK racing
- Average attendance increased by 4.2%
- Hospitality attendance increased by 17.1%
- Lingfield Park Marriott Hotel and Country Club opened in May 2010
- Masterplan proposal for the redevelopment of Folkestone Racecourse submitted
- ATR profit contribution increased by 163%

### Operating overview

Operating results for the year ended 31 December 2010 were encouraging in an environment that was heavily influenced by external factors, including the continued challenging economic conditions; the pressures on funding caused by the reduced Levy yield from bookmakers; and the extreme weather conditions in both the early and later parts of the year. Despite these challenges, we have been able to increase underlying adjusted profit before interest and tax\* by 10.4% to £5.4m (2009: £4.9m). In so doing, we have increased the profit contribution from racecourse operations by 3.8% to £7.2m (2009: £7.0m)\*\*. ATR has shown excellent growth and contributed £1.4m to Arena through our 45.85% equity share (2009: £0.5m).

We have been able to improve average attendances, hospitality revenues and catering profits in 2010. The raceday experience that we offer continues to evolve with our high-quality catering offering proving an ever more important element in differentiating our raceday customer experience. Themed racedays, whether the more traditional 'Ladies Day' or newer 'Racing and Music' nights, 'Family Fundays' or other specific events, have proved increasingly popular. These events not only provide a broader appeal for the race-goer but also allow us to target our marketing activities in a consumer-specific way. We have further plans for 2011 to build on this success with additional themed days and an evolution of our marketing approach, including online through our website and social media channels, as well as with greater customer relationship management.

Arena's racing operations are recognised for their quality and for the professionalism and dedication of our racing staff. These strengths, combined with the flexibility of our three all-weather racecourses, enabled the Group to stage 352 fixtures in the year across our seven racecourses, including during periods of severe adverse weather. During December 2010, 48% of scheduled UK racing was lost to the weather conditions. However, Arena staged the expected number of fixtures with six abandonments being replaced with six extra fixtures at short notice. In total, we lost 18 fixtures in the year (2009: eight) and staged 14 extra fixtures at short notice (2009: four). The net impact of December's weather conditions on Arena's profit was a £0.3m reduction as a result of a 14,000 fall in total attendance compared to the prior year and a number of cancelled non-racing meetings and events.

Our in-house catering operation is fully integrated into each racecourse, allowing us to utilise synergies across each site and align revenue generation. On a Group-wide basis we are able to leverage expertise through shared resources and purchasing power through national supplier contracts. Quality of product and service, one of the key drivers of our in-house strategy, has continued to improve from an already high level.

On 10 February 2011, we announced that Arena had successfully tendered to The London Organising Committee of The Olympic Games and Paralympic Games ('LOCOG') and had been awarded the contract to provide catering services at both the Eton Dorney and the Greenwich Park venues as part of the Olympic and Paralympic Games in 2012. Eton Dorney will be home to the sprint canoeing and rowing events and Greenwich Park will be home to the equestrian and modern pentathlon events. The contract contains elements of both fixed income and variable income that is dependent upon the numbers of attendees and spend per head and the Board

\* Adjusted to exclude gains on the disposal of assets (2010: £nil, 2009: £0.4m).

\*\* Before the impact of pre-opening costs of the Lingfield Park Marriott Hotel development of £0.5m (2009: £0.2m).

currently estimates that Arena's 2012 net profit contribution from the contract will be in the range of £0.5m to £1.0m.

### Media rights

Arena licenses the right to use the media content of racing from its racecourses through two main channels: to LBOs in the UK and Ireland and internationally, online and via non-terrestrial TV, through ATR. Revenue from these rights amounted to £13.6m (2009: £13.0m) and represents 21.3% of total revenue (2009: 19.9%).

The Group has secured 353 scheduled fixtures for 2011 and we have a reasonable expectation that we will be able to secure a similar fixture list for 2012 and beyond. Each of these fixtures will generate income from the LBO market which, from 1 January 2012, will arise pursuant to a new five-year contract with SIS. The Board has estimated that this new contract will have a total value of £106.0m over its term, which compares to the current five-year contract that will have delivered an estimated £55.6m of income to Arena between 2007 and 2011. Advanced payments of £12.5m were received by Arena on both 22 July 2009 and 22 July 2010. A third payment of £7.0m is due on 22 July 2011. The balance of the estimated revenue is due over the five-year term and is linked to the number of races run at Arena's racecourses.

### Real estate development

Arena has been successful in achieving planning permissions and executing developments that both enhance racecourse assets and create value from surplus land. During 2010, the most recent of these developments was completed and the Lingfield Park Marriott Hotel and Country Club opened in May after a £30.0m investment.

Arena is also pursuing development projects at four other racecourses:

- In October 2010, Arena submitted its masterplan for the redevelopment of Folkestone Racecourse as part of SDC's process for drawing up its new Local Development Framework. The proposal safeguards the future of the Racecourse via a complete rebuild, funded by the introduction of approximately 800 residential units. SDC is likely to report in the middle of 2011, after which there will be an examination-in-public, which is likely to conclude in Spring 2012;
- Wolverhampton Racecourse has planning consent for a combined hotel and casino development that extends the existing hotel from 54 to 170 bedrooms. This project is dependent upon the grant of a small casino licence from Wolverhampton City Council. It is anticipated that tender applications will be invited for this licence in August 2011, with the final award expected in Summer 2012. We will participate in the tender and our belief is that the mixed-use scheme of casino, racecourse and an extension to the existing hotel will provide a compelling proposition;
- Doncaster Racecourse has planning consent for a 120-bedroom hotel and 34 residential units. This consent was recently extended until mid-2013. The Board remains confident of the commercial viability of this scheme and of its complementary nature to the existing facilities; and
- At Royal Windsor Racecourse the first part of a medium-term redevelopment programme was commenced with the construction of a new entrance building housing offices and a food outlet. There will also be an expansion and

refurbishment of the weighing room and jockeys' facilities. This first phase project is expected to cost £1.0m and complete in time for the 2011 racing season.

### Industry funding

Reductions in funding from the Levy are having a major impact on racecourses and all participants in the racing industry. The yield from the Levy on bookmakers has fallen from £75.4m in 2009/10 to an estimated £64.8m in 2010/11, with a consequent impact on the funds distributed to racing. Arena suffered a reduction in funding for 2010 which had a £0.3m profit impact through reduced direct incentive payments and prize money contributions, which were then supplemented by Arena. As previously announced, the impact on 2011 is more significant, with further reductions to fixture incentive payments of £0.8m and reductions in payments to support operational running costs of £0.7m, both of which will directly impact profit. The Levy Board has also taken the unusual step of making certain fixtures available with either no or partial funding for prize money. Arena has secured 48 partially funded fixtures and 36 fixtures with no funding for prize money which, whilst each of these will still be profitable and are important in maintaining our fixture list, will be consequently less profitable than fully funded fixtures.

The racing industry and bookmakers failed to reach agreement on the form of the Levy scheme for 2011/12 and so it was referred to Government for 'determination'. On 16 February 2011, a statement from the Minister responsible set out the new terms. These are estimated to deliver a yield of £73.7m to £80.8m, which would be above the level of the current 2011 budgeted Levy expenditure of £60.0m. Our expectation is that this uplift will predominantly benefit prize money, which will assist in improving race programmes and/or Levy Board reserves, and will therefore have minimal short-term impact on racecourse profitability. Over the medium term it will help to protect growth. Maintenance of the Levy in a revised form is considered important by the Arena Board and in the medium term we will seek a solution that addresses offshore operators and betting exchanges and their customers that have so far not been addressed by the current 'determination'.

### Outlook

Despite a challenging trading environment, Arena's core business moved forward successfully in 2010. Improved average racecourse attendances, together with good development of ATR's international media rights business, have helped to mitigate the continuing pressure on hospitality spend and the impact of reduced industry funding. The Review of Operations on page 19 provides further details.

Arena remains well placed with its increasingly diversified income streams, notably through in-house catering, ATR media distribution and the Lingfield Park Marriott Hotel. However, due to the significant reduction in Levy yield we expect another challenging year and, on that basis, we do not anticipate material overall growth in 2011. Trading in the current year to date is in line with these expectations. With the significant successes achieved over the last few years, the prospects for 2012 are significantly brighter.

### Mark Elliott

Chief Executive  
7 March 2011

# Market Overview

Despite economic conditions remaining difficult, the racing industry has seen an overall increase in attendances in 2010. Arena's seven racecourses have again hosted more than a quarter of all UK racing with above average attendance growth in the year.

## Consumer demand/economic conditions

Whilst the UK has technically been out of recession throughout 2010, any recovery in demand and consumer spend levels has been slow to materialise. Arena's racecourses tend to operate in predominantly local markets with individual characteristics of demand. Across the Group we have seen some improvement in business levels but this remains fragile and hence we remain cautious on significant growth for 2011.

Outside our core racing business there has been some improvement in demand for conference and events business. Although, in the later part of the year, occupancy levels at the Lingfield Park Marriott Hotel were depressed, in keeping with market conditions at other UK provincial hotels, with the freezing weather also causing a number of conference and event cancellations. Looking forward, we have experienced some good levels of enquiries for events business in the early part of 2011, but lead times remain very short and visibility of bookings for later in the year is limited.

## Racecourses and attendances

The profile of racecourses in 2010 remained unchanged from that in 2009 with 60 racecourses in operation. More than half of these racecourses are owned or managed by one of the three main racing groups, Arena, Northern Racing and Jockey Club Racecourses. The remaining independent racecourses have a mixture of public and private ownership structures. Across the 60 racecourses a total of 1,392 fixtures were staged in 2010 (2009: 1,427 fixtures) of which Arena hosted 352 (2009: 370), representing 25% (2009: 26%). Arena's unique portfolio includes three of the four all-weather racetracks in the UK, enabling it to race many more times each week, through all weeks of the year and, at Wolverhampton, in the evenings under floodlights. In 2011 the industry has scheduled a total of 1,480 fixtures, of which Arena will stage 353.

Ownership	Number of racecourses	2010 fixtures	
Arena Leisure Plc	7	352	(25%)
Northern Racing*	10	209	(15%)
Jockey Club Racecourses	14	346	(25%)
Independent	29	485	(35%)
Total UK racecourses	60	1,392	(100%)

\* Including Ffos Las under management.

Total attendance across all UK racecourses was 5.8 million, slightly ahead of 2009 (5.7 million). Historic trends have shown that public attendance at racecourses is relatively resilient to the economic cycle and this has continued to be the case in recent times. Average attendance grew by 3.4% to 4,145 (2009: 4,008) and would have been higher without the major impact of December's freezing weather, when nearly a half of all UK race meetings were abandoned. The racing industry launched its 'Racing for Change' initiative with the specific intention of improving the quality and perception of racing and broadening its appeal. A free racing week in April generated over 40,000 in attendance and included meetings at Arena's Wolverhampton and Doncaster Racecourses. Market statistics on hospitality trends are not readily available; however taking Arena's performance as an indication, we have seen some moderate recovery in business levels in 2010. With consumers seeking value for money, however, admissions-related revenues are only moderately higher.



**Banqueting**  
All of Arena's racecourses offer conference and banqueting facilities on and off racedays.



**Hospitality**  
Arena's team of chefs serve up to 85,000 people in hospitality suites and restaurants each year.



## Catering and hospitality

In 2007 Arena established its own in-house catering operation, which has quickly gained a reputation for high-quality and excellent service standards.

In 2010 profits from catering operations exceeded £2.0m for the second year running. Revenues were £10.7m, representing 16.7% of the Group's total.

>£2.0m

In 2012 Arena Leisure Catering will deliver its first major external catering supply contract with an estimated total customer base of:

1,000,000

## Industry funding

A critical issue facing the racing industry through 2010 and 2011 is the significant decline in the yield of the Levy. The Levy on bookmakers' profits from UK horseracing has provided significant funds to racing for nearly 50 years. The largest proportion provides for prize money, followed by contributions to the costs of running racing and to central and administrative functions. In the past the Levy reached a peak of £115.3m, and for the current scheme that runs until the end of March 2011, the expected yield is £64.8m. This substantial fall is largely the result of the movement offshore of previously UK-domiciled telephone and internet betting, the growth of offshore online bookmakers, the advent of betting exchanges and the increasing number of high street betting shops falling outside the full Levy charge. Reductions in funding levels have substantially impacted prize money levels and in 2011 will have an impact on racecourse profitability through reductions in race meeting cost contributions. In addition, some fixtures in 2011 will not receive any or will receive only partial prize money funding with racecourses choosing to self-fund these meetings at consequently reduced profit levels.

Following the failure to agree the mechanism for the calculation of the Levy for the period 2011/12, that scheme was referred to Government for 'determination'. In February 2011, the determination was announced with an estimated yield of £73.7m to £80.8m. The scheme will be based on an increased headline rate of 10.75% of UK horseracing gross profits (2010/11: 10.0%), with a reduction in the profit threshold below which LBOs pay a reduced rate, to £50,000 (2010/11: £89,000).

### Levy Yield (£m)

2010/11	64.8
2009/10	75.4
2008/09	90.6
2007/08	115.3
2006/07	99.2
2005/06	99.3
2004/05	105.6
2003/04	110.7
2002/03	79.9
2001/02	72.9
2000/01	60.3



## Media rights

Media rights for the distribution of racing content to LBOs will be licensed to SIS from January 2012 under a new five-year agreement. Revenues from this contract will be approximately double those of the current agreement.

In 2010 we achieved:

# £11.6m

The current contract is inflation-linked and will have delivered an estimated £55.6m over its five-year term.

From 2012 we estimate an average £21.2m per annum from the new five-year SIS contract, which has an estimated value over its term of:

# £106.0m



## Strategy and Business Model

Our portfolio of racecourse assets provides a solid base for future development of the Group into a range of complementary, income-generating activities.

### The key aspects of Arena's strategy are encompassed in the following themes:

- Continuing to capitalise on the intellectual property value of the rights to racing content that can be sold through intermediaries in the UK and in international markets
- Investing in major developments that allow continued diversification of racecourse earning streams
- Leveraging the core fundamentals of our operating business through:
  - Racing operations;
  - Catering in-house and for third parties; and
  - Venue and facilities management
- Acquisitions that build on our core skills and operations. These are likely to be opportunistic in nature

Arena has been successful in exploiting the value of its racing media rights via licence to bookmakers for use in LBOs and internationally through ATR. This product is unique in UK racing, with our seven racecourses accounting for over one-quarter of all UK horseracing and the ability to supply live content throughout the year during the day and into the evening.

The Group has secured planning consents and managed the subsequent development of leisure assets on our racecourses; Doncaster Racecourse was redeveloped and reopened in 2007 and the Lingfield Park Marriott Hotel and leisure development completed in 2010. Future major projects include the Wolverhampton 'racino' and the Doncaster hotel and residential scheme, which both have planning consent. We are progressing, and remain hopeful of, a successful residential planning application at Folkestone Racecourse allowing the complete redevelopment of that site and securing the future of the Racecourse.

The cash-generative operational business has remained consistently profitable through a difficult trading market and has continued to develop in terms of both operating margins and the quality and variety of product that we are able to offer customers. Having established our in-house catering operation in 2007, we have now been able to secure our first major outside contract with the provision of catering services to two London Olympic venues in 2012.

Arena is not dependent on any single revenue stream or revenue driver, with almost 50% of the Company's revenues derived from long-term, contracted sources, such as the Levy and media rights income. Combined with additional hotel, golf and events revenues, Arena has positioned itself to ensure that the Company is not dependent on revenues generated purely by attendance.

Key business driver	Income stream	Activity
Fixtures and races	Levy funding	Prize money Integrity costs
	UK media rights	Transmission to LBOs in UK and Ireland
	Other racing income	International media rights Sponsorship On-course betting commission Racecards and advertising
Public and hospitality attendance	Admissions revenue	On-the-gate sales Advanced sales Hospitality boxes Annual badges
	Catering income	Food and beverage retail Restaurants Hospitality Concessions
Non-racing activities	Utilising racecourse facilities	Conference and banqueting Exhibitions and events
	Other leisure	Hotels Golf courses Leisure club



## Hotel and leisure

---

Lingfield Park Marriott Hotel and Country Club is the UK's first integrated hotel, leisure, racing, golf and events venue offering 365 days a year entertainment.

In May 2010 the hotel welcomed its first paying guests following completion of an on-time and on-budget direct investment of:

**£30.0m**

By 2013 we expect Lingfield Park's share of revenue from hotel, leisure, conference and events to be:

**30%**

---



## Resources

The Group achieves its strategic and business objectives through the deployment of key resources including the people it employs, relationships with customers and suppliers and intellectual property inherent in the business.

### People

The skills and dedication of our employees are key to the success of Arena's business. Recognising this, the Group devotes itself to the recruitment, training and retention of the highest calibre employees.

Employees are rewarded according to their contribution and capability and to incentivise them to support the Group's activities and strategies. Arena's reward framework takes into account incentives, benefits, share schemes and Long Term Incentive Plan ('LTIP') awards, as well as base pay.

Emphasis is placed on the training and development of staff to maintain high morale and motivation. Arena employs a Group Training Officer who is responsible for overseeing the training and development of all staff. Regular training is provided for racecourse management teams, and they are tasked with ensuring the development of their staff. A regular review process is in place to monitor these procedures, ensuring that the development motivates staff, as evidenced by the low staff turnover rate across the Group.

On racedays Arena relies on a casual workforce for whom the Group is responsible for training and development. The Group aims to provide a high-level of training to encourage individuals to work for Arena regularly, enabling the Group to develop them further, thus meeting Arena's objective of providing quality service to all customers.

### Customers

The Group has multiple customers across distinct areas of the business.

Racecourse fixtures attract attendance from both the general public and hospitality clients. Our relationships with these customers are managed on a local basis with increasing focus on relationship management procedures to enhance value and frequency of attendance.

We maintain strong connections with bookmakers, with whom we have both direct and indirect relationships. They are a key corporate customer at race meetings, providing hospitality, sponsorship and, in the case of the on-course gaming, can also be considered a supplier of services to our other customers. We manage these relationships on both a local and central basis.

Indirect relationships with bookmakers are core to our business through our distribution of media rights, both in the UK and Ireland via licence to bookmakers for use in LBOs and on an international basis through ATR. These 'rights' are contracted for long-term periods, typically five years, and are negotiated in advance.



**Breathe Spa**  
at the Lingfield Park Marriott Hotel offers a range of facilities and treatments.



**Golf Academy**  
A championship-standard golf course and academy complex offering practice facilities and coaching.

The Group receives income from the Levy on bookmakers which is controlled by the Levy board. Arena manages this relationship through its affiliation with trade associations and through direct relationships with the officers and members of the Levy Board.

The Group is increasing its diversity of income streams, in particular through the addition of complementary assets on racecourses. Hotels, golf and leisure, conference and events are the main areas and each has customers that are managed locally on each racecourse. In some areas we utilise agencies and, in the case of our two hotels, we have considerable support from Marriott and Holiday Inn under franchise agreements, thus benefitting from their sales and marketing infrastructure.

### Suppliers

Arena has relationships with suppliers for goods and services that are utilised in the execution of our business model. The key supplier relationships are managed across the Group both locally and centrally, whichever is considered appropriate in each instance. Whilst the Group has significant internal resources, some areas of expertise are out-sourced to third parties, for example, in the case of real estate, for expert planning advice or design.

Procedures and policies exist for the contracting and management of these supplier relationships. The Group's policy is to fix payment terms when agreeing business transactions, to ensure that suppliers are aware of such terms and abide by the agreed terms of payment. The number of days' purchases that were represented by year-end Group trade creditors was 33 (Company: 39).

### Intellectual property

Each racecourse has inherent value in its racing content and is able to realise this value through the sale of rights to third parties either directly or through intermediaries.

The Group's racecourses own 268 racing fixtures and have been able to successfully gain additional short-term fixtures, enabling a total fixture list in excess of 350 race meetings in a typical year. These short-term fixtures are held on interests of between one and three-year tenures.

The Group has built up and continues to expand 'know-how' in key areas, with recognised experience in racing operations, catering, venue and facilities management, construction project management and planning, as well as having implemented procedures and supporting IT systems that facilitate the successful delivery of its business model and strategy.

## Key Performance Indicators

The Group monitors a number of key performance indicators that are both financial and operational. These indicators are considered either to be the key drivers of the business or to represent the key metrics by which the performance of the business is measured.

### Why these key performance indicators are important:

On this page and the facing page are shown the key performance indicators that are considered relevant in measuring the performance of the business.

The operational drivers of these indicators and their impact on the business are considered on page 11 with the resulting revenue segmentation shown opposite.

The primary driver of performance is the number of fixtures hosted and then the total attendance, particularly the private and corporate hospitality element. Attendance is expressed in aggregate for the year and as an average per fixture. Hospitality attendance is shown in aggregate and is important as the highest profit-contributing customer segment.

### Financial key performance indicators

#### Revenue (£m)

2010	64.0
2009	65.2
2008	64.8
2007	57.9
2006	45.3

Revenue has decreased between 2009 and 2010 predominantly as a result of the reduced funding contributions from the Levy, which will decrease further into 2011. Increasing revenue streams come mainly from the Lingfield Park Marriott Hotel, which opened in May 2010.

#### Profit before interest and tax (£m)

2010	5.4
2009	4.9
2008	5.8
2007	5.7
2006	5.6

Profit before interest and tax is shown as adjusted for separately disclosed items:

- 2010 – no adjustments
- 2009 – gain on sale of asset
- 2008 – gain on sale of asset
- 2007 – impairment losses, gain on disposal of flood damaged assets
- 2006 – no adjustments

#### Earnings per share (p)

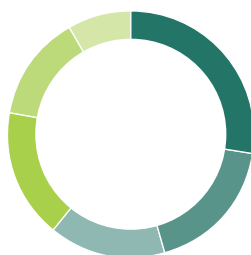
2010	1.02
2009	1.16
2008	1.12
2007	1.63
2006	1.61

Earnings per share decreased between 2009 and 2010, despite increased profits before interest and tax, owing to the additional interest expense incurred following the cessation of capitalising interest in relation to the Lingfield Park Marriott Hotel development upon its completion in May 2010.

## Operational key performance indicators

### Analysis of revenues (£m)

Levy	17.7
Media rights (LBO)	11.6
Admissions-related	9.8
Catering	10.7
Other raceday	8.9
Non-raceday	5.3
<b>Total</b>	<b>64.0</b>



The Group has diverse sources of revenue, of which approximately half is received from industry sources, namely the Levy and LBO media rights income. The remainder reflects the consumer focus of the business, from admission receipts, catering incomes and other sources of racing and non-racing business. Over time, we expect the share of non-racing-related revenues to increase as we diversify our racecourse business. From 2012, the proportion of media rights income will be impacted positively by the enhanced agreement with SIS.

### Total attendances\*

2010	634,000
2009	639,000
2008	629,000
2007	557,000
2006	488,000

\* To nearest thousand.

Total attendance has decreased slightly from 2009 to 2010 with 18 fewer fixtures staged in 2010. We are targeting growth in attendance for 2011 through our customer-focused product, themed racedays and improved marketing strategy.

### Average attendance per fixture

2010	1,800
2009	1,727
2008	1,733
2007	1,605
2006	1,382

Average attendance is a good indicator of underlying consumer trends. It can be affected by the mix of race fixtures in any particular year, with additional unscheduled fixtures typically generating lower attendances than scheduled fixtures. In 2010 we were pleased with an above-industry average growth of 4.2% and expect to further improve in 2011 through our product and marketing initiatives.

### Hospitality attendance

2010	45,200
2009	38,600
2008	53,700
2007	62,700
2006	48,200

Hospitality attendance is an important profit contributor to Arena's racecourses. Economic conditions have impacted this business significantly, with some recovery in 2010, although we are some way off the peak year of 2007. We expect further moderate recovery in 2011.

### Number of fixtures held

2010	352
2009	370
2008	363
2007	347
2006	353

Each of Arena's seven racecourses owns the rights to host certain race meetings into perpetuity. In addition to these 'owned' meetings, totalling 268 across the Group, further meetings are acquired on arrangements lasting from one to three years. In 2011 we expect to stage 353 fixtures, having secured 85 additional short-term fixtures.

## Principal Risks

Arena regularly reviews on-going and potential risks which may impact upon the execution of strategy and operational performance with a consequential impact on value. In so doing, management and the Board ensure that appropriate systems, procedures and controls are in place to mitigate the occurrence and impact of such risks.

Risk type and impact	Mitigation
<p><b>Commercial and operational risk</b></p> <p>Arena's business is exposed to weaknesses in consumer spend, particularly in the private hospitality segment. A reduction in the contribution from this segment has a consequent reduction in profitability. Current trading levels are considered moderate and hence operational risk is less than in previous years.</p> <p>Adverse economic conditions can cause a reduction in the levels of customer spend per head at racecourses and can impact the Group's non-racing business streams, notably through conference, events and hotel revenues.</p> <p>Poor weather conditions can impact income, both attendance-related and, in extreme cases, the hosting of fixtures, resulting in a loss of profitability.</p>	<p>Management has taken mitigating actions to protect Arena from current and potential operational risks:</p> <ul style="list-style-type: none"> <li>• The operating cost base has been aligned with reduced customer revenue and the operating synergies arising from bringing our catering operation in-house have protected profits;</li> <li>• The Group has appointed suitably experienced and qualified senior management to oversee and direct the operation and standards of performance across all of Arena's racecourses;</li> <li>• Appropriate systems and structures are in place to ensure proper training and supervision of staff, and management information systems monitor performance on a regular basis against predetermined targets;</li> <li>• Arena has made a significant investment in information technology, covering key business areas and, in particular, reservations, ticketing and points of sale and customer relationship management. These systems are substantially embedded assets with a consequent improvement in the control environment of the Group; and</li> <li>• The Group's three all-weather tracks provide significant protection against the loss of fixtures due to bad weather. In extreme weather conditions fixtures can be lost, although it is often the case that additional fixtures can be staged at short notice, thereby mitigating the potential loss.</li> </ul>
<p><b>Industry funding risk</b></p> <p>A significant proportion of the Group's annual income is derived from the statutory Levy on bookmakers' profits from UK horseracing. The scheme has suffered significant reductions in yield with a consequent reduction in funding levels. Further reductions could be possible if a higher proportion of betting on UK racing moves to betting exchanges or offshore, with a reduced or no capture of revenue by the Levy. There is a risk that a replacement for the Levy, or further reductions in the amount generated, may have a detrimental impact on income.</p> <p>A significant proportion of the Group's annual income is derived from its contract for the supply of racing content to LBOs. These contracts are linked to the numbers of races that are staged.</p>	<p>As mitigation to these risks:</p> <ul style="list-style-type: none"> <li>• 2011 funding levels have been set at a relative minimum level and the downside risk is considered low. The 2011/12 scheme is forecast at a level that is above the current budgeted level. The Government has expressed its intention to reform the Levy to avoid future determinations and provide a long-term sustainable mechanism. There is a high level of involvement of Arena management in the key industry bodies; and</li> <li>• Arena enters into long-term contracts for the provision of racing content and has entered into an early agreement for the period from 2012 to 2016, thereby securing this income for the medium term. Arena has historically been able to secure over 350 fixtures a year and has a reasonable expectation of continuing at this level.</li> </ul>

## Risk type and impact

### Development risk

Arena has a strategy for the creation of value through maximising the utilisation of real estate and land assets. Central to this strategy are a number of planned and active development projects.

The new Marriott Hotel and leisure facility at Lingfield Park is now complete and no other on-going major projects are currently in their construction phase.

The future major developments are:

- A new hotel extension and casino (subject to securing a licence) at Wolverhampton Racecourse;
- A new hotel and residential development at Doncaster Racecourse;
- Improved racecourse facilities, including a new entrance building, at Royal Windsor Racecourse; and
- A planning application for a residential development and the redevelopment of Folkestone Racecourse.

### Strategic risk

Arena manages a number of strategic risks related to the delivery of value through exploiting its multiple sources of value creation:

- The current credit markets have reduced the availability and increased the cost of additional debt funding, which has a potential impact on the Group's ability to source acceptable funding for future development projects; and
- Potential failure to achieve acceptable planning consents for the surplus land holdings, of which the most significant is that at Folkestone Racecourse, is mitigated by appropriate management actions.

### Health and safety risk

Arena must ensure it satisfies all health and safety standards and complies with Disability Discrimination Act legislation.

## Mitigation

In order to mitigate the risks in its development programme, Arena has or will:

- Undertake detailed feasibility studies in respect of the new developments using highly qualified and experienced consultants to assess the business potential in each location;
- Choose to work with internationally recognised hotel brands with significant experience and market presence based upon established management contract and franchise models;
- Employ suitably experienced and qualified project managers for each construction project who are dedicated to delivering the development from planning through to completion; and
- Enter into fixed-price contracts with suitably experienced and established building contractors.

To mitigate this risk Arena has taken the following actions:

- Maintaining a close relationship with our current lender, as well as building and maintaining relationships with other potential lenders. In addition, management and the Board continue to consider other alternative sources of investment capital; and
- Detailed planning strategies have been developed in conjunction with a suitably qualified property consultant. Regular meetings are held with local council executives and planning departments and representations have been made through the Local Development Framework process.

Arena takes the following actions to ensure the health and safety of its employees and customers:

- The Group has employed suitably qualified and experienced health and safety managers to ensure that the Group's industry-leading health and safety policies are communicated and complied with;
- Each racecourse employs an on-site food safety specialist whose training is overseen by the Group's Health and Safety Manager. These on-site employees are, in turn, responsible for ensuring all racecourse catering staff receive food hygiene training;
- From a racing perspective, Arena's Health and Safety Manager is responsible for communicating controls and procedures across the Group. She is a member of the Racecourse Association's Safety Advisory Group and ensures that industry best practice is implemented across all seven racecourses; and
- Arena's Health and Safety Manager oversees the Group's all-areas access programme, which has been successful in making its venues accessible to visitors with mobility, sight and hearing difficulties, particularly at Wolverhampton, Worcester and Southwell, which remain Disability Symbol holders, and at Lingfield Park, where accessibility was integral to the recent redevelopment work.



---

## Events

---

Race meetings with themed entertainment, from music concerts to ladies days to family fun days, are proving increasingly popular.

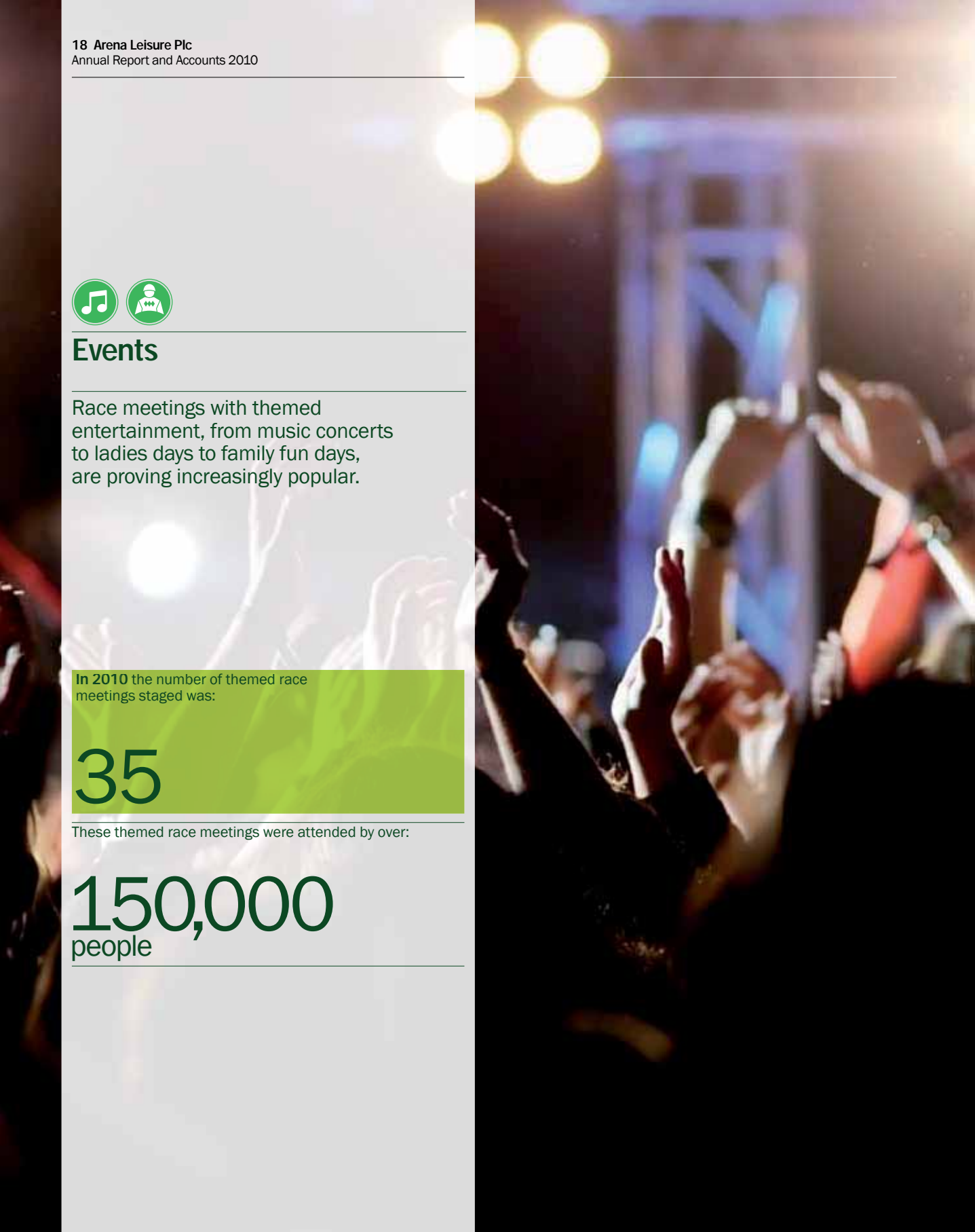
In 2010 the number of themed race meetings staged was:

35

These themed race meetings were attended by over:

150,000  
people

---



## Review of Operations

During 2010 Arena has been able to grow its operating business, open a new hotel and leisure development, further establish its in-house catering operation and seen good progress from ATR, particularly in international media distribution.

### Overview

Some recovery in market conditions and a continued focus on the customer offering and marketing of lead promotions resulted in improvements in attendances. Average attendance across all seven racecourses increased by 4.2% to 1,800 (2009: 1,727) and total hospitality attendance increased by 17.1% to 45,200 (2009: 38,600). Total attendance was 634,000, which is slightly less than the 639,000 in 2009 as a result of fewer fixtures being held. A total of 352 fixtures were staged in 2010, which was 18 less than in 2009 when the closure of Great Leighs Racecourse resulted in additional fixtures being transferred to Arena courses at short notice. Arena has again staged over one-quarter of all UK racing fixtures (2010: 25%, 2009: 26%).

Of Arena's scheduled fixtures, 18 were abandoned during the year (2009: eight, 2008: seven) which represents an unusually high number and was a result of the severe weather conditions during both the early part of the year and the last five weeks of 2010, during which time, respectively, 11 and seven race meetings were lost. Due to the capacity of our all-weather tracks and the dedication of our staff we are able to stage extra fixtures at short notice and, in 2010, 14 extra fixtures were hosted (2009: four), of which six were in December. Attendances throughout December, at both the extra and the scheduled fixtures, were 14,000 less than in 2009 and the resulting adverse impact on profit was approximately £0.3m.

As has already been described, the Levy yield suffered a significant reduction in the year resulting in cuts to the distributions to racecourses. The overall contribution to Arena's racecourses reduced by £3.8m to £17.7m (2009: £21.5m), which resulted in a £0.3m negative impact on profitability (2009: £nil). Income from LBO-related media rights of £11.6m remained at the same level as the prior year (2009: £11.6m). Whilst the LBO contract benefits from an inflationary adjustment, the number of fixtures, and hence races staged, were less than in 2009, resulting in no net increase.

In May, the Lingfield Park Marriott Hotel and Country Club opened for business. The hotel operation is integrated with the Racecourse with a long-term business plan that is based on mixed leisure, corporate and events-based incomes. Initial trading through the summer months was in line with our expectations, with good golf and racing-related business.

The last quarter proved more challenging, due principally to market conditions. Pre-opening costs of the hotel operation were £0.5m (2009: 0.2m), as expected.

Arena's racecourse operation delivered an operating profit of £6.7m in the year (2009: £6.8m), after the impact of the hotel pre-opening costs. Excluding these costs, the racecourse contribution has increased by 3.8% to £7.2m (2009: £7.0m). Within this, the impact of reduced Levy funding and the December weather-affected trading was a cumulative negative £0.6m. Admissions-related incomes, royalties from international media rights and the first trading period of the new hotel together produced a net increase in profit of £0.8m.

### Racecourses

Racecourse performance has continued to show resilience to economic conditions with good increases in attendance levels, maintained public spend per head and hospitality volumes increasing, albeit from what was a relatively low base.

Arena's largest event of the year, the Ladbrokes St Leger festival at Doncaster Racecourse, was again successful. The total crowd over the four days in September was 60,000 (2009: 53,000) and Ladbrokes St Leger day itself attracted 30,000 (2009: 27,000). Hospitality attendance over the four days was 6,400 (2009: 5,500) up by 16.4% in line with trends in the rest of the business, but some way short of the 2008 level of 10,000. Overall attendance at Doncaster has been encouraging and showing a trend of growth, which indicates that the Racecourse is becoming re-established after its closure for redevelopment prior to August 2007. The course staged 29 fixtures in 2010 (2009: 31) and continued the programme of themed events with racing and music nights in May and August, featuring 'X-Factor' finalists and 'Scouting for Girls', both of which attracted good crowds, and a non-racing Halloween event which started a new concept that we will build on in 2011. The cold weather at the beginning and end of the year caused the abandonment of four race meetings (2009: none). The weather also had an impact on the last quarter conference and events business, although the year saw an improvement in this business stream as we gain greater utilisation from the extensive conference and meeting facilities.

## Review of Operations continued

Royal Windsor Racecourse recorded good public attendances at the popular summer-season Monday nights, which form the mainstay of the course's 26-fixture programme (2009: 27). A number of these nights are themed and have allowed us to target our marketing successfully as well as to broaden the appeal of each event. The World Cup in June and July would typically reduce attendances at these evening fixtures but we were able to mitigate most of any shortfall, keeping it below 10% on days with matches. In the past, corporate hospitality levels at Royal Windsor were approximately double current levels with large reductions in levels of entertaining by financial institutions having a major impact since 2008.

The opening of the Marriott Hotel at Lingfield Park Racecourse is a major transformation for this venue. The operation across hotel, leisure and racecourse facilities is fully integrated, realising benefits from operational synergies and revenue generation. A franchise agreement with Marriott International provides for brand standards and sales, marketing, reservations and revenue management capabilities. Refurbishment work on the Racecourse's function rooms now allow these to be sold as an integral part of conference, event and residential offerings that are combined with the hotel facilities. Lingfield Park is now the UK's first integrated 'racing country club' offering racing, golf, spa and leisure facilities, conferences, meetings and events in a location that is both picturesque and close to London, Gatwick and major road and rail links. Initial trading patterns have seen good business from leisure-related stays, with guests taking advantage of the golf course facilities or choosing to combine weekend racing with an overnight hotel stay. Residential conferences and meetings form a long-term core business segment for Lingfield Park, with an expectation that this will build over time as we are able to establish and gain reputation.

The Group's three racecourses with all-weather tracks continue to provide the majority of Arena's fixtures and in 2010 Wolverhampton, Southwell and Lingfield Park Racecourses staged 96, 76 and 90 fixtures, respectively (2009: 98, 78 and 98). Fixture levels were lower than in 2009 when the closure of Great Leighs Racecourse in January of that year resulted in the transfer of its fixtures, with Arena's courses picking up 38. In 2010, many of these equivalent fixtures were included in the BHA fixture scheduling and spread over more courses. The all-weather courses are also able to stage fixtures at short notice and, often in periods of bad weather when racing is lost at turf tracks, additional fixtures will be raced at all-weather courses. In 2010, Arena staged 14 of these additional fixtures (2009: four). At many of the all-weather meetings the attendance levels are comparatively low; however these are

important fixtures in the generation of racing content for media distribution to bookmakers. In turn, they are therefore important for the generation of Levy through betting turnover and produce a significant net positive contribution to Levy funds.

Worcester Racecourse staged 17 fixtures in the year (2009: 16) and was able to race a full fixture list without disruption from the bad weather and flooding that has hampered past years. Attendances were close to 40,000 people over the year, with major event days proving successful in attracting up to 4,000 people to what is a relatively small course. Similarly, Folkestone Racecourse is a relatively small operation and raced 18 times during 2010 (2009: 22). Unfortunately this course was badly impacted by weather conditions and abandoned its first three meetings of the year and its last meeting in November. Excellent efforts in the local market, based on targeted sales initiatives, have seen good improvements in hospitality at Folkestone and a commensurate increase in race sponsorship, but these successes were not able to make up for the impact of the four lost fixtures. The long-term future of Folkestone Racecourse is linked to the redevelopment of the site as part of our application for a mixed-use leisure and residential development.

The Group's catering operations were brought in-house in early 2007 and since that time have achieved recognised improvements in service delivery and product quality as well as profitability. We have highlighted before the importance of the catering operation in helping to sustain operating margins and drive promotional sales and this continued through 2010. As the catering business matures, we have been able to apply best practice across our racecourses and in 2010 have made good progress in standardising concepts of restaurant and retail offering, where appropriate. The catering operations form an integral part of each racecourse operation and centrally we are able to manage purchasing contracts, operational procedures and performance through Arena's Catering Operations Director. The catering operation is able to deliver a diverse product offering, from smaller raceday food and drink retail to the larger event days of over 30,000 people at the Ladbrokes St Leger and the high-end catering demanded at Royal Windsor in the summer season.

After the year end, in February 2011, Arena announced that it had been successful in tendering to LOCOG and had been awarded the contract to provide catering services at both the Eton Dorney and the Greenwich Park venues as part of the Olympic and Paralympic Games in 2012. The Board currently estimates that the net profit contribution from the contract in 2012 will be in the range of £0.5m to £1.0m.



## At The Races

Arena's 45.85% affiliate generates income from its website, TV channel and its international media distribution joint venture, GBI Racing.

In 2010 Arena's shareholding in ATR delivered a profit contribution of:

# £1.35m

ATR is currently able to distribute racing content through its GBI Racing joint venture to a total of:

# 25 countries

Performance

### At The Races

Arena's 45.85% affiliate company, ATR, is a media distribution business with income streams generated from a website, a television channel and through distributing content internationally. The other main stakeholder is BSkyB, with Ascot and certain other racecourses, including those owned by Northern Racing, having a non-controlling interest.

ATR is the UK and Ireland's most watched, dedicated horseracing channel and is available in 14 million homes. The channel can reach up to 2.0 million individuals each month with a regular daily audience of over 400,000 and a peak of 560,000 that was recorded in November 2010 during the Breeders' Cup coverage. The demographic profile of audience is attractive to both advertisers and sponsors. Advertising revenues from television have again performed well in 2010, thanks to the strong fundamentals behind ATR's audience profile.

The website 'attheraces.com' is the premier racing and betting website in the UK and Ireland. During 2010 it has achieved significant uplifts in its monthly usage, reaching a peak of 975,000 unique users in October (2009: 650,000). Users are attracted to the wealth of information on the site including racecards, tipping and video content. The expansion

of the business segment has seen ATR develop 'Bet & Watch' technology that allows race streams to be viewed live on bookmaker websites as well as a live channel available via annual subscription. Through 3G technology, ATR is available across all major mobile phone platforms in the UK and Ireland.

In March 2010, ATR commenced its joint venture with Racecourse Media Group for the international distribution of all UK and Irish racing. This joint venture, GBI Racing, pools the respective rights of the two entities and provides a unified broadcast service for British and Irish racing in important pari-mutuel markets such as Italy, France, South Africa, Turkey and Australia, as well as further developing opportunities in newer markets such as Singapore, Malaysia and Hong Kong. In 2010, the joint venture delivered better than expected cost savings of £0.6m for ATR and increased revenues, thereby contributing to the overall excellent result of ATR in the year.

In the year to 31 December 2010, ATR generated an operating profit of £2.5m (2009: £1.4m) from revenue of £19.2m (2009: £16.1m) and a gross profit of £11.8m (2009: £10.2m). Operating profit was recorded after payments to racecourses of £4.2m (2009: £3.1m). Arena's share of post-tax profit was £1.4m (2009: £0.5m).

## Managing Responsibly

The Directors recognise the importance of monitoring Arena's performance relating to environment, employee and social and community issues and have policies and procedures to enable them to do so.

### Environmental matters

The Group operates a Health, Safety and Environmental Policy that sets out the responsibilities of the Directors, management and employees in relation to all health and safety and environmental matters, as well as the procedures to be followed. The Group Health and Safety Manager oversees the implementation of the policy. Specially trained employees have been given responsibility for communicating specific areas of the policy across the Group.

Recycling processes are in place at all seven racecourse venues that allow for the separation and recycling of cardboard and paper, glass, ink cartridges, fluorescent tubes and waste oil. We handle and recycle 120 tonnes of glass waste per annum and are now introducing plastic recycling. Food and stable waste recycling are being targeted as areas for improvement and we are trialling the production of biodiesel from used cooking oil. For each recycling process we have introduced waste monitor responsibilities to nominated operational staff members.

To minimise the risk of environmental damage from major developments, Arena employs environmental consultants and service consultants to carry out assessments in respect of each project and to report to the respective local planning authorities. The Environment Agency ('EA') is also consulted at all stages of the proposals. Measures will be agreed with the contractors to comply with local authority and EA requirements. The designs of all developments also include energy efficiency measures.

### Employee matters

The recruitment and retention of the highest calibre employees is of the utmost importance. Policies and procedures, including details on the employee appraisal process, are provided to all employees.

The Group is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. All employees and potential employees will be regarded equally and given equal opportunities regardless of their age, gender, race, colour, sexual orientation, religion or belief, ethnic origin, nationality, marital status or disability. Management actively pursue both the employment of disabled persons whenever a suitable vacancy arises and the continued employment and retraining of employees who become disabled whilst employed by the Group. Particular attention is given to the training, career development and promotion of disabled employees with a view to encouraging them to play an active role in the development of Arena.

Arena also runs an apprenticeship programme offering training to 16-18 year olds across a range of disciplines. Two of our racecourses, Wolverhampton and Southwell, continue to hold the Investors in People accreditation standard.

Employee communications are a high priority and staff members are kept informed through regular management meetings at a national, regional and local level, with staff briefings and notices as appropriate. Each year, employees have the opportunity to meet with their line manager to discuss formally their performance and communicate their views; however more frequent discussions are encouraged.

Further information on staff training and remuneration is provided in the Resources section on page 13.

### Social and community issues

Arena recognises that gambling is closely associated with horseracing and is a popular raceday activity. The Group has taken steps to encourage responsible gambling and to meet the objectives of the Gambling Act 2005, which are:

- Preventing gambling from being a source of crime or disorder, being associated with crime or disorder or being used to support crime;
- Ensuring that gambling is conducted in a fair and open way; and
- Protecting children and other vulnerable persons from being harmed or exploited by gambling.

In this respect, all of Arena's racecourses fully support all on-course bookmakers and betting operators in the policies that they have. Arena is supportive of GamCare's work in association with the Administration of Gambling on Tracks Ltd in producing a standard policy on behalf of on-course bookmakers. Arena ensures that information regarding assistance for problem gambling is available at its racecourses, and that all racecourse staff and on-course bookmakers are able to provide this information to race-goers upon request.

Arena recognises that the consumption of alcohol is also associated with a day at the races and has taken steps to encourage responsible drinking through the implementation of a Group-wide, zero-tolerance policy. This policy requires all staff who serve alcohol to receive appropriate training, verify photo identification if age is in doubt and turn away customers who are below the legal drinking age or who appear to have had too much to drink. Catering bar staff, area managers and supervisors work in conjunction with the racecourse stewards to monitor the crowds for underage drinkers.

## A strong capital base

During the year, Arena has reduced net borrowings whilst funding its capital investment programme.



**Tony Harris**  
Finance Director

Arena has continued to generate good operating cash flows that have allowed it to complete elements of its investment programme and to reduce net borrowings. Profit before interest and tax has shown a good increase and Arena was able to pay a dividend to shareholders in the year.

### Results overview

Revenue in the year to 31 December 2010 decreased by 1.9% to £64.0m (2010: £65.2m). Profit before interest and tax increased by 1.7% to £5.4m (2009: £5.3m). In 2009, the disposal of certain non-core assets resulted in a gain of £0.4m and, before this gain, profit before interest and tax increased by 10.4% to £5.4m from £4.9m. Profit before and after tax decreased by 12.1% to £3.6m (2009: £4.1m). Earnings per share were 1.02p (2009: 1.16p).

The £1.2m decrease in revenue was mainly driven by the shortfalls in Levy funding, which were £3.8m less at £17.7m for the year (2009: £21.5m). This shortfall has predominantly impacted prize money and is also a result of fewer fixtures in the year. The income from LBO media rights has remained constant at £11.6m (2009: £11.6m), despite fewer fixtures in the year, as a result of an inflationary uplift on this contract and slightly better numbers of races per fixture. The new hotel and leisure development at Lingfield Park accounted for an additional £1.5m of revenue in the year. All other net revenues have seen a slight net increase over 2009.

Profit from racecourse operations (before the gain on disposal of assets in 2009) was £6.7m (2009: £6.8m). The impact of the pre-opening costs of the hotel development at Lingfield Park was £0.5m in the year (2009: £0.2m) and before these costs, the underlying racecourse profit contribution has

### Net loans and borrowings (£m)\*

2010	39.8
2009	46.3
2008	44.2
2007	36.2
2006	21.6

\* Loans and borrowings, net of cash.

increased by £0.2m to £7.2m (2009: £7.0m). The negative impact of Levy funding cuts (£0.3m) and the impact of the freezing weather on trading in the last five weeks of 2010 (£0.3m) have collectively reduced profits by £0.6m. The total number of hospitality customers increased by 17.1% to 45,200 (2009: 38,600) and, whilst total attendance was slightly down on 2009 at 634,000 (2009: 639,000), the average attendance increased by 4.2% to 1,800 (2009: 1,727).

Profit before interest and tax increased by £0.1m to £5.4m from the £5.3m in 2009 that included the £0.4m gain on the disposal. Profit before interest and tax for the year, adjusting for these items, increased by £0.5m (2010: £5.4m, 2009: £4.9m). Profit before tax decreased by £0.5m to £3.6m (2009: £4.1m), largely as a result of the impact of finance expenses in 2010 due to the interest on the financing of the Lingfield Park development, which was capitalised in the period prior to the hotel becoming fully operational in May 2010. During May to December in 2009, a total of £0.4m of interest relating to the hotel development was capitalised (2010: £nil). A non-cash gain of £0.1m (2009: £nil) was recognised in 2010 relating to the movement in the valuation of interest rate derivatives.

### Central costs

Central costs were £2.7m (2009: £2.4m) and include a share-based payment expense in respect of the amortisation of share options and LTIP awards of £0.3m (2009: £nil).

### Capital expenditure

During the year, £9.1m was invested in capital assets (2009: £19.2m). Of this, £7.6m (2009: £17.6m) was incurred on the Lingfield Park Marriott Hotel and leisure scheme, bringing the total completed spend to £30.0m. The remaining £1.5m included £0.4m related to the commencement of a £1.0m project at Royal Windsor Racecourse that will improve racecourse facilities and provide a new entrance building with office and retail space. Capital additions include £0.8m (2009: £0.7m) of interest costs related to development projects during the planning and construction phases. Having completed the Lingfield Park Marriott Hotel project and pending the commencement of construction on the other major development schemes, Arena will utilise operating cash flows in 2011 to substantially reduce net borrowings.

### Treasury report

In February 2010, Arena signed new banking facilities with its relationship bank, Lloyds Banking Group ('LBG'), which were put in place and partially drawn in March 2010 replacing all existing facilities. The new facilities are committed until 31 December 2013 and are composed of a term loan of £35.0m that will amortise evenly over the period to its maturity on 31 October 2013 and a £20.0m revolving credit facility that is committed until 31 December 2013. Of the term loan, £5.0m was repaid on 31 July 2010 and a further £5.0m repaid after the year end on 31 January 2011. The interest

## Capital expenditure (£m)

2010	9.1	
2009		19.2
2008	15.0	
2007		29.2
2006	17.6	

margin on the facilities is variable between 2.0% and 3.25% over LIBOR, dependent on the leverage of the Group at the beginning of each quarter. As part of this restructuring, Arena was able to release assets previously secured to bank loans that are now provided as security to SIS in respect of the second and third advanced media rights payments of £12.5m and £7.0m, received on 22 July 2010 and due on 22 July 2011, respectively. This security remains until the commencement of the new media rights agreement with SIS on 1 January 2012. The advanced payments are included within deferred income, with the £7.0m also shown as a receivable, at 31 December 2010.

Hedging of interest rate risk is considered on a regular basis to ensure that it is appropriate for the level of debt within the Group. A previously held interest rate cap and collar arrangement in respect of £12.0m of debt, which was effective from 1 October 2007 to 30 September 2012, has now been replaced with a £15.0m amortising fixed swap at 4.77%. This new instrument was effective from 1 April 2010 and reduces to £10.0m from 1 April 2011 and then to £5.0m from 1 April 2012, until its maturity on 31 December 2013. Effective from 2 October 2008 to 31 December 2012, a further £10.0m of interest rate hedging remained in place and unchanged with a 75/25 mix of fixed and capped contracts, for which the effective LIBOR rate is a maximum of 5.27%.

Bank loans are secured by a fixed and floating charge on the assets and undertakings of Arena companies, and a first legal charge on all the freehold properties. The security is subject to deeds of priority and permitted charges in favour of the Horserace Betting Levy Board ('HBLB') in respect of security for interest-free loans provided to the Group, which had a balance outstanding of £3.2m at 31 December 2010 (2009: £4.8m).

Under IAS 39 'Financial Instruments: Recognition and Measurement', the Group is required to value the interest rate swap contract at its fair value, with the gain or loss being shown in the statement of comprehensive income as an 'other finance gain or loss'. The valuation at 31 December 2010 has resulted in a liability of £1.3m (2009: £1.5m) being recorded on the balance sheet and a gain of £0.1m (2009: £nil) to the statement of comprehensive income. The contract will be revalued at each subsequent reporting date and the resulting gain or loss arising from the valuation will be taken to the statement of comprehensive income.

Arena continues to utilise interest-free loans made available by the HBLB in respect of specified capital projects. Under IAS 39, interest-free loans are valued on a discounted cash flow basis on initial recognition, with the gain being taken to the statement of comprehensive income. In subsequent years, the loan is accreted back up to its book value, with the corresponding charge being taken to the statement of

## Net cash flows from operating activities (£m)

2010		18.5
2009		19.7
2008	8.6	
2007	8.3	
2006	5.7	

comprehensive income. As a consequence, the Group has made a charge of £0.3m (2009: £0.4m), reflecting the notional interest charge on outstanding HBLB loans received in previous periods. This accounting for the interest-free loans under IAS 39 has no 'cash' consequences.

## Going concern

Arena's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 1 to 22. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 23 to 24. In addition, Note 26 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Although the current economic conditions create uncertainty, particularly over funding levels from the Levy on bookmakers, the Group's forecasts and projections, taking account of reasonably possible changes in trading performance, together with mitigating actions that are within management's control, show that the Group is expected to be able to operate within the level and covenant conditions of its new debt facilities.

The Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

## Taxation

There is no current year tax charge due to Arena's continued use of HBLB capital credits in respect of racecourse capital projects and the availability of brought forward tax losses. At 31 December 2010, corporation tax losses representing trade and non-trade losses of £64.4m (2009: £64.0m) were available for utilisation in future years, subject to agreement with HM Revenue & Customs.

We have recognised a deferred tax liability on temporary differences of £13.3m (2009: £12.7m). In addition, we have also recognised a deferred tax asset for losses of £13.3m (2009: £12.7m).

## Dividends

The Board is pleased to announce that it is proposing a final dividend for 2010 of 0.38p per share totalling £1,384,000 (2009: 0.38p per ordinary share totalling £1,384,000). In line with Arena's stated policy, no interim dividend was paid during the year (2009: none).

## Tony Harris

Finance Director  
7 March 2011

## Board of Directors and Company Secretary



**David Thorpe**  
Chairman

David is an experienced chairman with a track record of growth, profitable performance and extensive Board-level experience in general management, consulting, operations and sales and marketing. In 2009 David completed a successful five-year term as Chairman of the Racecourse Association, the trade association for 60 UK racecourses. He was appointed to the role of Chairman of Arena in May 2010. David is currently Chairman of Clinical Solutions International Ltd, SHL Group Ltd and Innovation Group Plc, and is a non-executive director of Interserve Plc. He is also a Liveryman of the Worshipful Company of Information Technologists.



**Mark Elliott**  
Chief Executive

Mark was appointed Chief Executive in October 2005. He was formerly Finance Director and then, finally, Chief Executive at Wembley plc, the track-based gaming leisure venue operator. Mark trained as a Chartered Accountant with Ernst & Young. Mark is Vice Chairman of the Racecourse Association, the trade body of the UK racecourse industry.



**Tony Harris**  
Executive Director

Tony was appointed Finance Director of Arena in May 2008. He was formerly Chief Financial Officer of The UNITE Group Plc and, prior to that, Vice President Finance (Europe & Africa, and Nordic regions) at Hilton International, where he was responsible for 230 hotels operating across 35 countries. Tony qualified as a Chartered Accountant with Arthur Andersen and then spent 13 years working in the hotel industry, first with InterContinental Hotels Group and then with Hilton International.



**Ian Renton**  
Executive Director

Ian has held the position of Racing Director since he joined Arena in 2001. He has extensive racing experience including Manager and Clerk of the Course at Salisbury, Wincanton and Aintree. A respected figure throughout racing, Ian sits on various industry advisory Groups and was previously a director of the British Horseracing Authority, which took over responsibility for regulation and governance of UK horseracing in 2007.



**Andrew Parker Bowles OBE**  
Non-Executive Director

Andrew has extensive experience and interests in the racing industry. He was a director of the British Horseracing Board from 1997 to 2000, has been a member of the Jockey Club since 1982 and for four years was the Jockey Club Steward responsible for all 59 (at the time) racecourses. An owner, rider and breeder of racehorses, he was a director of United Racecourses from 1995 to 1999 and a director of RAM Racing Leisure Ltd from 1996 to 1999. Andrew is a non-executive director of three other companies and a trustee or governor of five charities. Andrew joined Arena in September 1999.



**Andrew Page**  
Non-Executive Director

Andrew is Chief Executive Officer, and formerly Finance Director, of The Restaurant Group plc ('TRG'), a listed company operating approximately 400 restaurants and pub restaurants, primarily in leisure locations and airports, in the United Kingdom. Prior to joining TRG, Andrew held a number of senior positions in the leisure and hospitality sector including Senior Vice President of InterContinental Hotels Group and Group Finance Director of Hanover International plc. Prior to that, he spent six years with Kleinwort Benson's Corporate Finance Department. Andrew trained as a Chartered Accountant with KPMG.



**Bob Mercer**  
Company Secretary

Bob is a Fellow of the Institute of Chartered Management Accountants with 13 years' experience working within the racing industry. Bob joined Arena in 1999, initially as Group Financial Controller following the acquisition of Wolverhampton and Southwell Racecourses, and has held the roles of Chief Financial Officer and Company Secretary since May 2001. Prior to working within the racing industry, Bob held a variety of senior roles in the textile and distribution industries.

## Corporate Governance

Arena has maintained its commitment to high standards of corporate governance during the year. The principles and provisions of the Combined Code have been considered by the Board. The Board confirms that throughout the year ended 31 December 2010 the Group has complied with the main and supporting principles as set out in the Combined Code issued by the Financial Reporting Council in June 2008, except for Code Provision A.7.2, in that non-executives have not been appointed for specified periods, and Code Provision A.6.1, in that the Board has not undertaken a formal annual evaluation of its performance and that of its Committees and individual Directors. This latter point is discussed further below. The Board will report in the 2011 Annual Report on its compliance with the Corporate Governance Code issued by the Financial Reporting Council in June 2010.

The Board is accountable to the Company's shareholders for good governance and the statement set out below describes how the principles identified in the Combined Code (appended to the Listing Rules) are applied by the Group.

### Directors

The Company is controlled through its Board of Directors. The Directors who held office during the year to 31 December 2010 were as follows:

David Thorpe	Non-Executive Chairman (appointed 19 May 2010)
Raymond Mould	Non-Executive Chairman (resigned 19 May 2010)
Mark Elliott	Chief Executive Officer
Ian Renton	Executive Director
Tony Harris	Executive Director
Andrew Parker Bowles OBE	Non-Executive Director
Andrew Page	Non-Executive Director

Biographies of the Board members appear on page 25 of this report. These indicate the high levels and range of business experience which are essential to manage effectively a business of the size and complexity of Arena.

In accordance with the Articles of Association ('the Articles'), David Thorpe, having been appointed during the year, will retire and Mark Elliott will retire by rotation at this year's Annual General Meeting and, being eligible, offer themselves for re-election.

The Directors are responsible for managing the business of the Company. The Articles contain certain provisions relating to the powers of the Directors, including the power to appoint Directors until they are reappointed by shareholders at the next Annual General Meeting. The Articles do not give the Directors the power to remove another Director. Any alteration by the Directors to the Company's share capital is governed by the Articles, although the Company's powers to issue and buy back its shares require shareholder approval.

Amendments to the Articles may be made by special resolution of the shareholders.

The Board meets at least six times each year and has a schedule of matters reserved to it for decision. The requirement for Board approval on these matters is communicated widely throughout the senior management of Arena. This includes matters such as determining the strategy of the Group, approval of financial reporting and controls, oversight of the Group's internal controls, material capital commitments, commencing or settling major litigation, business acquisitions and disposals, Board membership and appointments, approval of remuneration of Directors and certain senior management, corporate governance matters, approval of Group policies and risk management strategies, amendments to the structure and financing arrangements of the Group and appointments to subsidiary company boards.

The Company Secretary is responsible for ensuring Board procedures are followed, including the formal minuting of any unresolved concerns that Directors may have in connection with the operation of the Company. During the year, there were no such unresolved issues.

The Board has delegated authority to the Committees of the Board on specific matters. Details of the Nomination and Audit Committees are given within this Statement and details of the Remuneration Committee are given in the Remuneration Report on pages 31 to 36.

Full details of Directors' remuneration and a statement of the Company's remuneration policy are set out in the Remuneration Report. Executive Directors abstain from any discussion or voting at full Board meetings on Remuneration Committee recommendations where the recommendations have a direct bearing on their own remuneration package. The details of each Executive Director's individual package are fixed by the Committee in line with the policy adopted by the full Board.

The differing roles of Chairman and Chief Executive are acknowledged and defined in separate statements approved by the Board. The key functions of the Chairman are to conduct Board meetings and meetings of shareholders and to ensure that all Directors are properly briefed in order to take a full and constructive part in Board discussions. The Chief Executive is required to develop and lead business strategies and processes to enable the Group's business to meet the requirements of its shareholders.

Details of the Chairman's other significant commitments are given in his biography on page 25. The Board is satisfied that these do not interfere with the performance of his duties as Chairman of the Company.

All of the Non-Executive Directors are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement. The senior Non-Executive Director is Andrew Page and any concerns relating to the executive management of the Company, or the performance of the other Non-Executive Directors, can be raised with him. The service agreements of the Non-Executive Directors are available for inspection at the Company's registered office and will be available at the Annual General Meeting.

Any Director appointed during the year is required, under the provisions of the Articles, to retire and seek election by shareholders at the next Annual General Meeting. The Articles also require that one-third of the Directors retire by rotation each year and seek re-election at the Annual General Meeting. The Directors required to retire will be those in office longest since their previous re-election and this will usually mean that each Director retires at least every three years, although there is no absolute requirement to this effect. In order to comply with the Combined Code, but avoid the expense of amending the Articles to deal with this single point, the Board has resolved that each Director will retire at least every three years, even if this is not strictly required by application of the provisions of the Articles.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access which every Director has to the Company Secretary. No such advice was sought during the year. The Company has appropriate insurance cover in respect of legal actions against its Directors and the level of cover is regularly reviewed.

### Nomination Committee

The members of the Nomination Committee are David Thorpe (Chairman, appointed 19 May 2010), Andrew Parker Bowles and Andrew Page. The Committee meets as required, but not less than once a year. Its responsibilities include reviewing the Board structure, size and composition, nominating candidates to the Board to fill Board vacancies when they arise and recommending Directors who are retiring by rotation to be put forward for re-election. The Committee also ensures that all Board appointees undergo training, as appropriate.

### Audit Committee

The Audit Committee operates under written Terms of Reference to assist the Board in the discharge of its duties with regard to the Group's accounts, the review of internal controls and risk management systems and the external audit.

The Audit Committee is scheduled to meet at least three times a year. It is comprised of Andrew Page (Chairman), Andrew Parker Bowles and David Thorpe (appointed 19 May 2010). Andrew Page is a Chartered Accountant with extensive experience in senior financial positions in listed companies in the leisure and hospitality sector.

Senior representatives of the Group's external auditors and appropriate members of senior management are normally invited to attend the meetings. The Chairman of the Committee also meets with the external auditors without management present.

The Committee has met its responsibilities by:

- Monitoring the integrity of the financial statements of the Company and the formal announcements relating to the Company's financial performance, and reviewing the significant financial reporting judgements contained therein;
- Reviewing the Group's internal financial controls and the Group's internal control and risk management systems (see further discussion on internal controls and risk management);
- Approving the remuneration and terms of engagement of the external auditors; and
- Agreeing the scope of the statutory audit with the external auditors prior to the commencement of their work and considering their findings prior to the approval of the financial statements.

The Audit Committee keeps the scope and cost effectiveness of both internal controls and the external audit under review. The independence and objectivity of the external auditors are also considered on a regular basis, with particular regard to the level of non-audit fees. In order to safeguard auditor independence and objectivity, the Committee uses its judgement in the approval of non-audit services provided by the external auditors to ensure both the nature of the work and the level of fees paid are reasonable. The split between audit and non-audit fees for the year under review appears on page 50.

## Corporate Governance continued

### Board and Committee meetings

The attendances at Board and Committee meetings by the Directors and senior executives of the Company during 2010 were as follows:

	Board Meetings	Remuneration Committee	Audit Committee	Nomination Committee
Number of meetings	6	3	3	3
<b>Executive Directors</b>				
Mark Elliott	6	–	–	3
Ian Renton	6	–	–	–
Tony Harris	6	–	–	–
<b>Non-Executive Directors</b>				
David Thorpe (appointed 19 May 2010)*	5	2	2	–
Raymond Mould (resigned 19 May 2010)**	1	1	–	2
Andrew Parker Bowles	6	3	3	2
Andrew Page	5	2	2	2

\* The maximum numbers of meetings during the period in which David Thorpe was a Board Member were: Board 5, Remuneration Committee 2, Audit Committee 2, Nomination Committee nil.

\*\* The maximum numbers of meetings during the period in which Raymond Mould was a Board member were: Board 1, Remuneration Committee 1, Nomination Committee 3.

### Board, Committee and individual performance

Although a formal annual evaluation is not currently in place, a continuous process of evaluation of the Board, its Committees and the individual Directors exists. The composition of the Board is also regularly considered.

### Internal control

The respective responsibilities of the Directors and the auditors in connection with the accounts are explained on page 37 and page 38 in the Statement of Directors' Responsibilities and Independent Auditors' Report. The Directors' statement on going concern appears on page 24, with further information given in Note 2 to the IFRS financial statements.

The Board of Directors is responsible for the Company's system of internal control, including the Company's reporting process and the Group's process for the preparation of consolidated accounts, and it is the role of management to implement the Board's policies on risk and control. The system of internal control is designed to manage and mitigate, rather than eliminate, the risk of failure to achieve business objectives. In pursuing these objectives, risk management and internal financial, operational and compliance controls can only provide reasonable, and not absolute, assurance against material misstatement or loss. The Board has reviewed the effectiveness of internal controls during the year.

The Board confirms that there is an on-going process for identifying, evaluating and managing the significant risks faced by the Group, which complies with the guidance 'Internal Control: Guidance for directors on the Combined Code'. This process has been in place throughout the current period and up to the date of approval of the financial statements. The process is regularly reviewed by the Board.

The key elements of the control framework and review processes across the Group are as follows:

- Financial reporting: a detailed formal budgeting process for all Group businesses culminates in an annual Group budget which is approved by the Board. Results for the Company and for its main constituent businesses are reported monthly against the budget to the Board;
- Financial and accounting principles: comprehensive financial and accounting controls are required by the Board for effective financial control. Where areas for improvement in the system of internal controls are identified, the Board considers the recommendations made by the Audit Committee and the external auditors;
- Capital investment: the Company has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired; and
- Treasury: the treasury position of the Group is managed centrally and monitored by the Finance Director.

There are policies and procedures in place for the reporting by employees and the resolution of suspected fraudulent activities. It is the policy of the Group to employ staff and management of high integrity, to train them appropriately and to require compliance with all regular laws, regulations and internal policies.

Arena does not have an internal audit function. Following the necessary evaluation, the Board has concluded that due to the modest size of the Group a formal internal audit function is not required. Appropriate internal audit work is, however, carried out by the Group finance department.

Two of the Directors of the Group are on the board of the Group's joint venture, At The Races. At least one of the Group's Directors will attend all significant meetings of the joint venture, where they will use their influence to ensure that the highest standards of internal control are maintained.

### **Risk management**

Following publication of guidance for directors on internal control (The Turnbull Guidance), the Board confirms its commitment to the management of risk within the organisation.

During the period under review, a risk review has been overseen by the Finance Director. The purpose of the risk review is to identify, evaluate and report formally to the Board on significant risk issues.

Information provided by the risk review, internal management reporting, external auditors and industry sources provides the basis on which the Board carries out its assessment of risk; to identify, evaluate and manage any risk deemed significant to the achievement of the Company's strategic objectives.

The risk management process involves the maintenance of a risk register which identifies significant risks and the controls in place to manage these risks. Any control or other weaknesses are notified to the Board and the appropriate action to be taken by management is identified and followed up.

There is a continued emphasis on risks affecting the health and safety of the Group's customers, employees and racing participants, with the Group employing a qualified Health and Safety Manager, whose responsibilities include food safety, and 15 other full-time qualified employees to oversee these matters on behalf of the Board. Their responsibilities include the communication of controls and best practice across the Group, staff training and building upon existing policies. Any issues are communicated to the Directors.

### **Communication**

The Company places a great deal of importance on communication with its shareholders. The full report and accounts are made available to all shareholders and, on request, to any other party when it has an interest in the Group's performance. Shareholders also have direct access to the Company and the Company responds to numerous letters and enquiries from shareholders on a wide range of issues. There is regular dialogue with individual institutional shareholders and the views of the shareholders are communicated to the Board after such discussions. Presentations to major shareholders are made at least twice yearly, after the announcement of the interim and final results, details of which, together with the Group's financial reports and other announcements, can be accessed via the Group's website: [www.arenaleisureplc.com](http://www.arenaleisureplc.com).

All shareholders have the opportunity to question the Directors at the Company's Annual General Meeting, at which the Board highlights key business developments.

### **The Listing Rules – the model code**

Dealings in the Company's securities by Directors and relevant employees follow the terms of the model code.

By order of the Board  
**Robert Mercer FCMA**  
Company Secretary

7 March 2011

## Other Statutory Information

### Directors

The following table shows the beneficial interests of the Directors who held office during the year to 31 December 2010 in the ordinary shares of the Company:

	Fully paid ordinary shares in the Company	
	At 31 December 2010	At 31 December 2009
David Thorpe (appointed 19 May 2010)	–	–
Raymond Mould (resigned 19 May 2010)	–	1,404,000
Mark Elliott	–	–
Ian Renton	30,000	30,000
Tony Harris	–	–
Andrew Parker Bowles OBE	42,000	42,000
Andrew Page	–	–

No changes to the above interests in shares have been notified to the Company in the period from 31 December 2010 to 4 March 2011. The Directors' holdings of options and awards over ordinary shares in the Company are noted in the Remuneration Report on pages 31 to 36.

The Group's insurance programme includes policies to insure the Directors and senior officers of the Company against claims made against them personally as a result of the performance of their duties for the Group.

There are no restrictions on the transfer of securities in the Company or on voting rights. The Company is not aware of any agreements between shareholders of the Company that may result in such restrictions.

### Substantial shareholders

The Directors have been made aware of the following other interests representing 3.0% or more of the issued ordinary share capital of the Company as at 4 March 2011:

	Ordinary shares of 5p	% of issued share capital
Rumney Manor Ltd	108,896,000	29.9
Reuben Brothers Ltd	107,639,495	29.6
Coatbridge Ltd	40,767,217	11.2
Fidelity Investments	11,536,539	3.2

### Significant agreements

There are no significant agreements to which the Company is party that take effect, alter or terminate upon change of control of the Company following a takeover bid. There are no agreements between the Company, its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid. There are no significant contracts to which the Company, or one of its subsidiary undertakings, is party and in which a Director is materially interested. Details of the Company's agreement for the provision of media rights are disclosed in Note 2 to the IFRS financial statements.

### Charitable and political donations

The Group's charitable donations in the year totalled £67,000 (2009: £19,000). The Group's racecourses make gifts of raceday hospitality boxes, admissions badges and restaurant packages to charitable causes, which are disclosed at their retail value. Charities are also given the opportunity to name races and to advertise in raceday programmes. In order to comply with accounting regulations, Arena has improved its process for recording these donations-in-kind, thereby ensuring all such donations have been captured in the year. No political donations were made in the year (2009: none).

### Additional disclosures

Changes in asset values	Note 16 to the IFRS financial statements
Financial instruments	Note 26 to the IFRS financial statements
Capital structure	Note 28 to the IFRS financial statements
Share option and long-term incentive plan schemes	Note 32 to the IFRS financial statements

### Annual General Meeting

The Notice convening the Annual General Meeting of the Company on 6 May 2011 is available on the Company's website: [www.arenaleisureplc.com](http://www.arenaleisureplc.com).

### Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution for the reappointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

### Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

# Remuneration Report

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

## Remuneration Committee

The Remuneration Committee consists of Andrew Parker Bowles (Chairman), Andrew Page and David Thorpe (appointed 19 May 2010). The Committee determines the remuneration of the Executive Directors and of certain other senior executives within the Company. The Committee also determines the Chairman's fee: the Chairman does not participate in discussions of his own fee. The Chief Executive may, at the Committee's invitation, attend meetings except when his own remuneration is discussed.

The Remuneration Committee has appointed independent remuneration consultants, Aon Hewitt Ltd, to advise on all aspects of senior executive remuneration. Aon Hewitt Ltd continues to act as consultant to the Company and has no other connection with the Company other than in the provision of advice on executive and employee remuneration.

## Remuneration policy

The Company's remuneration policy is to pay individual Directors a salary or fee at market levels for comparable jobs, recognising the size of the Company and the business sector in which it operates.

The following comprised the principal elements of Executive Directors' remuneration:

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

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

In addition to the statutory vote to be held on this Remuneration Report, shareholders will be given the opportunity to ask the Chairman of the Remuneration Committee, Andrew Parker Bowles, questions on any aspect of the Group's remuneration policy at the 2011 Annual General Meeting.

The remuneration for Non-Executive Directors consists of salary or fees for their services in connection with the Board and Board Committee meetings. They are not eligible for pension scheme membership. Their fees are determined by the Executive Directors who have regard to the level of salary or fees paid to the non-executive directors of similar companies and the time commitment required of each Non-Executive Director.

Each element of remuneration payable to Executive Directors is discussed in more detail below.

In addition, Ian Renton received £10,000 (2009: £10,000) as remuneration for his non-executive directorship of the British Horseracing Authority, the term of which expired in July 2010.

## Basic salary and benefits

Basic salaries for all Executive Directors are reviewed (but not necessarily increased) annually by the Committee. In determining the level of basic salaries, the Committee will give consideration to the Government's published inflation statistics, salaries for comparable positions in similar sized companies and any significant change in the role performed by the Director. The Committee also makes use of benchmark data provided by external remuneration consultants but is mindful of the potential ratcheting effect that such data can produce.

In addition to basic salaries, each Executive Director is entitled to the following main benefits:

- In addition to normal bank and public holidays:  
Chief Executive – 29 working days' holiday per annum,  
Finance Director – 26 working days' holiday per annum  
and Racing Director – 25 working days' holiday per annum;
- A fully expensed company car or cash equivalent; and
- Private health insurance for themselves, their spouse and children.

## Remuneration Report continued

### Bonus

In addition to a basic salary, the Executive Directors are entitled to an annual performance-related bonus.

Specific performance criteria are set by the Remuneration Committee at the commencement of the year following approval of the Group's budgets and are primarily related to defined strategic and financial objectives of the Group. The bonus payments that relate to the year under review were 27% of salary for the Chief Executive, 22% of salary for the Finance Director and 23% for the Racing Director.

The maximum aggregate bonus potential for 2010 of the Chief Executive was 100% of salary (2009: 100%), the Finance Director's was 75% of salary (2009: 75%) and the Racing Director's was 75% of salary (2009: 75%).

### Long-term incentives

The Committee believes that share ownership and the granting of share awards strengthen the link between executives' personal interests and those of shareholders.

### Share options

In October 2006, final grants of share options were made to the Executive Directors under the Arena Leisure Discretionary Share Option Scheme, which expired in June 2007.

### Long-term incentive plan

With the expiration of the share option scheme in June 2007, shareholder approval was obtained for a new long-term incentive plan ('LTIP') at the 2007 Annual General Meeting. The LTIP provides for annual conditional awards of equity-settled shares to be made subject to the achievement of challenging performance conditions. The key features are set out below.

### Maximum award level

The normal maximum annual award is set at 100% of base salary. In exceptional circumstances, such as recruitment or retention, awards may be made up to 200% of base salary. The annual LTIP award can be replaced by an additional performance-related bonus of up to a maximum of 50% of the normal annual bonus award.

### Performance conditions

For the initial awards made in 2007, the performance conditions were structured using absolute adjusted earnings per share ('EPS') growth targets. This approach enabled the conditions to be tailored to the specific circumstances of the Company at the time and its prospects for the next three-year period. For the purposes of the initial awards, as well as for awards made in future years, adjusted EPS is defined as basic EPS adjusted for certain one-off events. For awards made in 2008 and future years the performance conditions are to achieve adjusted EPS growth in excess of inflation ('RPI') targets over the performance period.

The awards made in 2007 and 2008 have not vested because the performance conditions have not been met.

The 2009 awards were made later than normal in the year, on 20 November 2009, and hence an extended performance period is being applied. The conditions attached to the 2009 awards are as follows for a four-year performance period ending on 31 December 2012:

Adjusted EPS growth over the four-year performance period	Vesting percentage of the shares subject to award
Less than RPI+16%	0%
RPI+16%	25%
RPI+40%	100%
Between RPI+16% and RPI+40%	Straight-line vesting occurs between 25% and 100%

The 2010 awards were made on 9 August 2010. The conditions attached to the 2010 awards are as follows over a three-year performance period ending on 31 December 2012:

Adjusted EPS growth over the three-year performance period	Vesting percentage of the shares subject to award
Less than RPI+30%	0%
RPI+60%	50%
RPI+90%	100%
Between RPI+30% and RPI+60%	Straight-line vesting occurs between 0% and 50%
Between RPI+60% and RPI+90%	Straight-line vesting occurs between 50% and 100%

The Committee's intention is that awards will normally be made on an annual basis under the LTIP to encourage sustained earnings growth.

### Pension policy

Each of the Executive Directors is entitled to participate in the Group's defined contribution pension scheme to which the Company will contribute 8% of basic salary. The pension scheme provides life insurance cover equal to four times basic salary.

### Service contracts

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

- The notice period required by the Company to terminate contracts is 12 months for Executive Directors;
- If the Company terminates without notice, the individual is entitled to a payment in lieu of notice of up to 12 months' pay;
- In the event of termination for reasons of misconduct, no payment in lieu of notice is payable;
- Executive Directors will be employed under normal contracts of employment, but are required to give the Company 12 months' notice of their intention to leave;
- Non-Executive Directors are required to give three months' notice under the terms of their service contracts; and
- The notice period required by the Company to terminate contracts is three months for Non-Executive Directors.

Details of each Director's contract are shown below. All contracts are on a rolling basis.

Director	Date of contract	Notice period
David Thorpe	19 May 2010	3 months
Raymond Mould (resigned 19 May 2010)	1 November 2005	3 months
Mark Elliott	27 September 2005	12 months
Ian Renton	9 April 2001	12 months
Tony Harris	1 May 2008	12 months
Andrew Parker Bowles	8 September 1999	3 months
Andrew Page	1 December 2008	3 months

### Directors' remuneration

The following disclosures on Directors' remuneration have been audited, as required by Section 497 of the Companies Act 2006.

The emoluments of the individual Directors were as follows:

				Year ended 31 December 2010		Year ended 31 December 2009	
	Salary/fee £'000	Bonus £'000	Benefits £'000	Total 2010 £'000	Pension contributions 2010 £'000	Total* 2009 £'000	Pension contributions 2009 £'000
David Thorpe (appointed 19 May 2010)	53	–	–	53	–	–	–
Raymond Mould (resigned 19 May 2010)	40	–	–	40	–	85	–
Mark Elliott	292	80	14	386	23	582	23
Ian Renton	174	40	15	229	14	287	14
Tony Harris	180	40	10	230	14	293	14
Andrew Parker Bowles	50	–	–	50	–	45	–
Andrew Page	50	–	–	50	–	45	–
	839	160	39	1,038	51	1,337	51

\* Included within the 2009 total are additional bonuses which the Remuneration Committee awarded Mark Elliott, Ian Renton and Tony Harris in specific recognition of their success in concluding the media rights distribution agreement with SIS. The additional bonuses were £217,000, £79,000 and £69,000 for Mark Elliott, Ian Renton and Tony Harris respectively. The cost of these bonuses is wholly related to the SIS contract and has accordingly been deferred within intangible assets and will be spread over the five-year term of the contract, commencing on 1 January 2012.

### Directors' holdings of share options

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

	At 31 December 2010	At 31 December 2009	Exercise price	Date from which exercisable	Expiry date
Mark Elliott	1,000,000	1,000,000	40.75p	3 October 2008	2 October 2015
	1,045,845	1,045,845	39.50p	31 October 2009	30 October 2016
Ian Renton	250,000	250,000	105.00p	25 May 2004	24 May 2011
	560,953	560,953	39.50p	31 October 2009	30 October 2016

All the options above are held under the discretionary Share Option Scheme, with the exception of 73,619 held by Mark Elliott and 28,571 held by Ian Renton which are held under the Share Option Plan. Of the grant exercisable from 31 October 2009, the amounts above represent the 75% of the total grant that has vested.

## Remuneration Report continued

The share option performance criteria for these options are noted below:

	Date of grant	Options	Performance criteria
Mark Elliott	31 October 2006	1,392,405	Exercisable from 31 October 2009 on a straight-line basis between 30% and 100% if the Company achieves annualised adjusted EPS growth in excess of RPI over the performance period between 3% and 10%. Based on the criteria, 75% of this grant has vested.
	3 October 2005	1,000,000	Exercisable from 3 October 2008 if the market price of shares at the end of any dealing day after the date of grant is 25% or more greater than the option price of 40.75p. 100% of this grant has vested.
Ian Renton	31 October 2006	746,835	Exercisable from 31 October 2009 on a straight-line basis between 30% and 100% if the Company achieves annualised adjusted EPS growth in excess of RPI over the performance period between 3% and 10%. Based on the criteria, 75% of this grant has vested.
	25 May 2001	125,000	Exercisable if the mean closing mid-price of shares is at least 139.75p over a continuous period of three months.
		62,500	Exercisable if the mean closing mid-price of shares is at least 159.5p over a continuous period of three months.
		62,500	Exercisable if the mean closing mid-price of shares is at least 181.5p over a continuous period of three months.
		250,000	

Adjusted EPS in relation to these options is defined as basic EPS adjusted for certain one-off events.

### Directors' holdings of LTIP share awards

The Directors' holdings of ordinary shares subject to award through the LTIP are as follows:

	At 31 December 2010	At 31 December 2009	Vesting date
Mark Elliott	834,763	–	2013*
	1,002,917	1,002,917	2013*
	–	500,773	10 April 2011**
Ian Renton	498,569	–	2013*
	599,000	599,000	2013*
	–	291,359	10 April 2011**
Tony Harris	515,021	–	2013*
	618,766	618,766	2013*
	–	338,983	8 May 2011**

\* The LTIP conditional shares awarded in 2009 and 2010 will vest upon issue of the annual results for 2012, subject to the performance conditions being met.

\*\* The awards granted in 2008, which were due to vest on 10 April 2011 and 8 May 2011, will not vest because the performance conditions at 31 December 2010 were not met.

The performance criteria for the shares subject to award are noted below:

	Date award made	Shares	Performance criteria
Mark Elliott	9 August 2010	834,763	Vesting after issue of the annual results for 2012 if adjusted EPS growth over the three years ending 31 December 2012 is RPI+90%. Vesting percentage reduces to 50% if EPS growth is RPI+60% and 0% if EPS growth is less than RPI+30%. Straight-line vesting occurs between 0% and 50% and between 50% and 100%.
	20 November 2009	1,002,917	Vesting after issue of the annual results for 2012 if adjusted EPS growth over the four years ending 31 December 2012 is RPI+40%. Vesting percentage reduces to 25% if EPS growth is RPI+16% and 0% if EPS growth is less than RPI+16%. Straight-line vesting occurs between 25% and 100%.
Ian Renton	9 August 2010	498,569	Vesting after issue of the annual results for 2012 if adjusted EPS growth over the three years ending 31 December 2012 is RPI+90%. Vesting percentage reduces to 50% if EPS growth is RPI+60% and 0% if EPS growth is less than RPI+30%. Straight-line vesting occurs between 0% and 50% and between 50% and 100%.
	20 November 2009	599,000	Vesting after issue of the annual results for 2012 if adjusted EPS growth over the four years ending 31 December 2012 is RPI+40%. Vesting percentage reduces to 25% if EPS growth is RPI+16% and 0% if EPS growth is less than RPI+16%. Straight-line vesting occurs between 25% and 100%.
Tony Harris	9 August 2010	515,021	Vesting after issue of the annual results for 2012 if adjusted EPS growth over the three years ending 31 December 2012 is RPI+90%. Vesting percentage reduces to 50% if EPS growth is RPI+60% and 0% if EPS growth is less than RPI+30%. Straight-line vesting occurs between 0% and 50% and between 50% and 100%.
	20 November 2009	618,766	Vesting after issue of the annual results for 2012 if adjusted EPS growth over the four years ending 31 December 2012 is RPI+40%. Vesting percentage reduces to 25% if EPS growth is RPI+16% and 0% if EPS growth is less than RPI+16%. Straight-line vesting occurs between 25% and 100%.

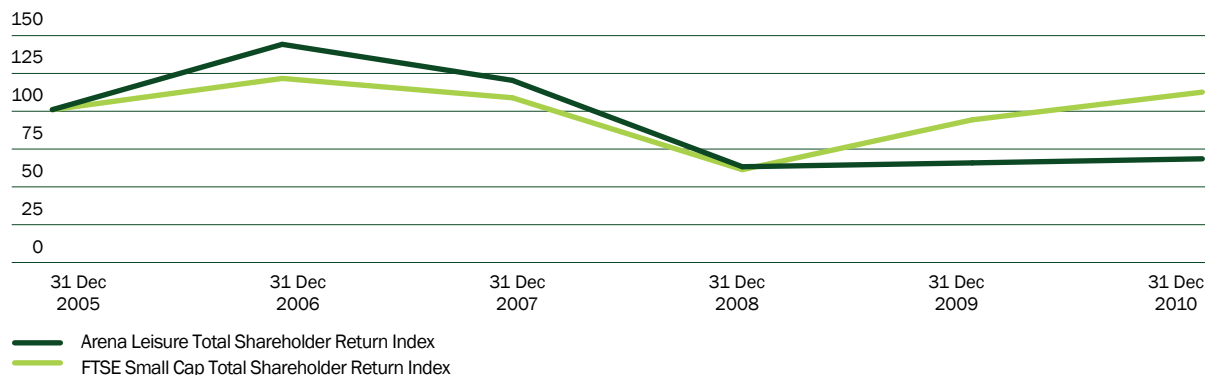
Adjusted EPS in relation to these options is defined as basic EPS adjusted for certain one-off events.

The mid-market price of Arena Leisure Plc ordinary shares at 31 December 2010 was 26.50p. High and low prices in the year ended 31 December 2010 were 37.00p and 25.75p, respectively. The grant price of the shares awarded in 2010 was 34.95p.

### Performance graph

The following graph compares the total return on the Company's shares with that of the FTSE Small Cap total return index over the last five years. The reasons the Company has chosen this particular index are that it is considered the most likely benchmark by which the majority of shareholders would want to assess their investment in Arena and it is generally less volatile over time than other market indices.

#### Total shareholder return



On behalf of the Board

**Andrew Parker Bowles**

Chairman, Remuneration Committee

7 March 2011

# Directors' Responsibilities

## Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- For the group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- For the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility statement of the Directors in respect of the annual financial report

The Directors confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board  
**Robert Mercer FCMA**  
Company Secretary

7 March 2011

Registered office:  
408 Strand  
London WC2R ONE

# Independent Auditors' Report

to the members of Arena Leisure Plc

We have audited the financial statements of Arena Leisure Plc for the year ended 31 December 2010 set out on pages 39 to 78. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ('IFRS') as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report or for the opinions we have formed.

## Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 37 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ('APBs') Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- The parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The information given in the Corporate Governance Statement set out on pages 26 to 29 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit; or
- A Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- The Directors' statement, set out on page 24, in relation to going concern;
- The part of the Corporate Governance Statement on pages 26 to 29 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- Certain elements of the report to members by the Board on Directors' remuneration.

## P Korolkiewicz

Senior Statutory Auditor for and on behalf of  
KPMG Audit Plc, Statutory Auditor  
Chartered Accountants

15 Canada Square  
London E14 5GL  
7 March 2011

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	Note	2010 Trading £'000	Separately disclosed items £'000	2010 Total £'000	2009 Trading £'000	Separately disclosed items £'000	2009 Total £'000
Revenue	5	63,983	–	63,983	65,239	–	65,239
Cost of sales		(46,897)	–	(46,897)	(47,749)	–	(47,749)
<b>Gross profit</b>		<b>17,086</b>	<b>–</b>	<b>17,086</b>	<b>17,490</b>	<b>–</b>	<b>17,490</b>
Other operating income	7	–	–	–	–	418	418
Administrative costs		(13,024)	–	(13,024)	(13,101)	–	(13,101)
<b>Profit from operations</b>	6	<b>4,062</b>	<b>–</b>	<b>4,062</b>	<b>4,389</b>	<b>418</b>	<b>4,807</b>
Share of post-tax results of joint venture	19	1,352	–	1,352	515	–	515
<b>Profit before interest and taxation</b>		<b>5,414</b>	<b>–</b>	<b>5,414</b>	<b>4,904</b>	<b>418</b>	<b>5,322</b>
Finance expense	11	(2,058)	–	(2,058)	(1,659)	–	(1,659)
Finance income	11	141	126	267	456	2	458
Net finance expense	11	(1,917)	126	(1,791)	(1,203)	2	(1,201)
<b>Profit before taxation</b>		<b>3,497</b>	<b>126</b>	<b>3,623</b>	<b>3,701</b>	<b>420</b>	<b>4,121</b>
Income tax expense	12	–	–	–	–	–	–
<b>Profit for the year and total comprehensive income</b>		<b>3,497</b>	<b>126</b>	<b>3,623</b>	<b>3,701</b>	<b>420</b>	<b>4,121</b>
Attributable to:							
– Equity shareholders of the parent company	13	3,605	126	3,731	3,793	420	4,213
– Non-controlling interest		(108)	–	(108)	(92)	–	(92)
		<b>3,497</b>	<b>126</b>	<b>3,623</b>	<b>3,701</b>	<b>420</b>	<b>4,121</b>
				Pence			
<b>Earnings per share</b>	13						
Basic earnings per share				1.02			1.16
Diluted earnings per share				1.02			1.16

The financial results above derive from continuing activities.

The notes on pages 43 to 71 form part of these financial statements.

## Consolidated Statement of Changes in Shareholders' Equity

for the year ended 31 December 2010

	Note	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total equity before non-controlling interest £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2009 (As reported)*		18,210	223	5,417	46,985	70,835	1,809	72,644
Impact of change in accounting policy*		-	-	-	(10)	(10)	-	(10)
At 1 January 2009 (Restated)*		18,210	223	5,417	46,975	70,825	1,809	72,634
Profit for the year and total comprehensive income		-	-	-	4,213	4,213	(92)	4,121
Transactions with owners:								
- Share-based payment	32	-	-	-	(28)	(28)	-	(28)
- Dividends paid	14	-	-	-	-	-	-	-
Total transactions with owners		-	-	-	(28)	(28)	-	(28)
Impact of change in accounting policy*	15	-	-	-	2	2	-	2
At 31 December 2009 (Restated)*		18,210	223	5,417	51,162	75,012	1,717	76,729
Profit for the year and total comprehensive income		-	-	-	3,731	3,731	(108)	3,623
Transactions with owners:								
- Share-based payment	32	-	-	-	320	320	-	320
- Dividends paid	14	-	-	-	(1,384)	(1,384)	-	(1,384)
Total transactions with owners		-	-	-	(1,064)	(1,064)	-	(1,064)
<b>At 31 December 2010</b>		<b>18,210</b>	<b>223</b>	<b>5,417</b>	<b>53,829</b>	<b>77,679</b>	<b>1,609</b>	<b>79,288</b>

\* Relates to a change in the accounting policy for leased assets. See Notes 2 and 15 for further information.

The notes on pages 43 to 71 form part of these financial statements.

# Consolidated Balance Sheet

at 31 December 2010

	Note	2010 £'000	2009 Restated* £'000
<b>Non-current assets</b>			
Property, plant and equipment	16	140,685	135,646
Intangible assets	17	6,072	6,035
Investment in joint venture			
– Share of gross assets		4,028	3,307
– Share of gross liabilities		(5,535)	(6,166)
	19	(1,507)	(2,859)
Goodwill in respect of joint venture	19	1,580	1,580
Loans to joint venture	19	4,308	4,754
		4,381	3,475
<b>Total non-current assets</b>		<b>151,138</b>	<b>145,156</b>
<b>Current assets</b>			
Inventories	20	471	422
Trade and other receivables	21	13,238	4,848
Cash and cash equivalents	23	3,099	351
<b>Total current assets</b>		<b>16,808</b>	<b>5,621</b>
<b>Total assets</b>		<b>167,946</b>	<b>150,777</b>
<b>Current liabilities</b>			
Bank overdraft	23	–	(1,874)
Trade and other payables	22	(5,821)	(6,750)
Loans and borrowings	25	(11,242)	(12,853)
Accruals and deferred income	24	(4,618)	(4,751)
<b>Total current liabilities</b>		<b>(21,681)</b>	<b>(26,228)</b>
<b>Non-current liabilities</b>			
Loans and borrowings	25	(31,669)	(31,924)
Accruals and deferred income	24	(35,308)	(15,896)
<b>Total non-current liabilities</b>		<b>(66,977)</b>	<b>(47,820)</b>
<b>Total liabilities</b>		<b>(88,658)</b>	<b>(74,048)</b>
<b>Total net assets</b>		<b>79,288</b>	<b>76,729</b>
<b>Equity</b>			
Share capital	28	18,210	18,210
Share premium	29	223	223
Merger reserve	29	5,417	5,417
Retained earnings	29	53,829	51,162
<b>Equity attributable to shareholders of the parent company</b>		<b>77,679</b>	<b>75,012</b>
Non-controlling interest	29	1,609	1,717
<b>Total equity</b>		<b>79,288</b>	<b>76,729</b>

\* Relates to a change in the accounting policy for leased assets. See Notes 2 and 15 for further information.

The notes on pages 43 to 71 form part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 7 March 2011 and signed on its behalf by:

Mark Elliott  
Chief Executive

Tony Harris  
Finance Director

## Consolidated Cash Flow Statement

for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
<b>Cash flows from operating activities</b>			
Profit for the year		3,623	4,121
Adjustments for:			
Depreciation	16	3,786	3,479
Share-based payment expense/(credit)	32	320	(28)
Net finance expense	11	1,791	1,201
Share of profit of joint venture	19	(1,352)	(515)
Profit on sale of property, plant and equipment		(31)	(420)
Grant amortisation		(72)	(74)
Cash flows from operating activities before changes in working capital and provisions		8,065	7,764
(Increase)/decrease in trade and other receivables		(8,390)	567
(Increase)/decrease in inventories		(49)	122
Increase in trade and other payables and deferred income		18,857	11,227
Net cash from operating activities		18,483	19,680
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(8,554)	(20,385)
Proceeds from sale of property, plant and equipment		295	625
Additions to intangibles		(37)	(27)
Repayment of loans to joint venture	19	515	300
Interest received		72	367
Net cash used in investing activities		(7,709)	(19,120)
<b>Cash flows from financing activities</b>			
Proceeds from bank and other borrowings		38,987	3,900
Capital grants received		–	98
Repayment of loans		(41,120)	(3,237)
Repayment of finance lease liabilities		(119)	(45)
Interest paid		(2,516)	(1,975)
Dividends paid	14	(1,384)	–
Net cash used in financing activities		(6,152)	(1,259)
Increase/(decrease) in cash and cash equivalents	23	4,622	(699)
Net cash and cash equivalents at beginning of year	23	(1,523)	(824)
Net cash and cash equivalents at end of year	23	3,099	(1,523)

The notes on pages 43 to 71 form part of these financial statements.

# Notes Forming Part of the Financial Statements

for the year ended 31 December 2010

## 1 Reporting entity

Arena Leisure Plc ('the Company') is a company domiciled in the UK. The address of the Company's registered office is 408 Strand, London WC2R 0NE. The consolidated financial statements of the Company as at and for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as 'the Group') and the Group's interest in jointly controlled entities. The Group is primarily involved in the ownership and operation of racecourses, and the worldwide broadcast and exploitation of racecourse media rights via the Group's shareholding in its At The Races ('ATR') joint venture.

## 2 Basis of preparation

### Statement of compliance

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 72 to 78.

The financial statements were approved by the Board of Directors on 7 March 2011.

### Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value;
- Financial instruments at fair value through the profit or loss are measured at fair value; and
- Liabilities for equity-settled share-based payment arrangements are measured at fair value.

The methods used to measure fair values are discussed further in Note 4.

### Functional and presentation currency

These financial statements are presented in sterling, which is the Company's functional currency. All financial information is presented in sterling and has been rounded to the nearest thousand.

### Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenditure. Estimates and underlying assumptions are reviewed on an on-going basis and are based on management's best knowledge of the amounts, events or actions at 31 December 2010. Actual results may differ from these estimates.

The key estimates and judgements made by management during the year relate to the carrying value of the racecourse development projects held within assets under construction (Note 16); an assessment is made concerning the projections of future cash flows from the development projects, which are dependent on, amongst other factors, planning consent, the award of a casino licence and estimated construction costs.

Information about other significant areas of estimation and judgements in applying accounting policies is included in the following notes:

- Note 17 – provisions for impairment: assumptions are made each year concerning the projections of future cash flows arising from the racecourses when reviewing the carrying value of goodwill and property, plant and equipment;
- Note 16 – residual values: an assessment is made of the estimated residual values of property, plant and equipment. Residual values are reviewed annually;
- Note 27 – recognition and measurement of deferred tax assets and liabilities: judgements are required in determining the amounts to be recognised, in particular, when assessing the extent to which deferred tax assets should be recognised, with consideration given to the timing and level of future taxable income; and
- Note 32 – measurement of share-based payment: assumptions are made each year concerning the projections of future profits of the Group in assessing the likelihood of performance criteria being met.

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Review of Operations on pages 19 to 21. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 23 to 24. In addition, Note 26 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. Further disclosures relating to liquidity risk are included within Notes 11 and 25.

The Group continues to be a cash-generative operational business with good-quality assets. Revenues are generated from a variety of sources including industry funding through the Horserace Betting Levy Board ('HBLB') and income from its five-year (to 31 December 2011) media rights contract to provide live racing pictures to UK licensed betting offices. In addition, on 22 July 2009, the Group signed a new five-year agreement commencing on 1 January 2012 for the provision of media rights with Satellite Information Services Ltd ('SIS') that provides for £32.0m in advance payments, of which £25.0m has already been received, and the balance of which is secured by letter of credit.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2010

### 2 Basis of preparation continued

In March 2010, the Group agreed new banking facilities with its relationship lender, Lloyds Banking Group Plc ('LBG'), totalling £55.0m, which replaced all previous bank facilities and which are committed until, and amortise to maturity on, 31 December 2013 (see Financial Review on pages 23 to 24).

Although the current economic conditions create uncertainty, particularly over funding levels from the Levy on bookmakers, the Group's forecasts and projections, taking account of reasonably possible changes in trading performance, together with mitigating actions that are within management's control, the Group is expected to be able to operate within the level and covenant conditions of its new debt facilities.

The Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

### 3 Accounting policies

The following new standards, interpretations and amendments, effective for the first time from 1 January 2010, have not had a material effect on the financial statements:

- Amendments to IFRS 2 'Share-based Payment';
- Revised IFRS 3 'Business Combinations';
- Amendments to IAS 27 'Consolidated and Separate Financial Statements';
- Amendments to IAS 39 and IFRS 7 'Financial Instruments';
- Amendments to IAS 39 and IFRIC 9 'Embedded Derivatives';
- Improvements to IFRS (issued by IASB April 2009);
- IFRIC 12 'Service Concession Arrangements';
- IFRIC 15 'Agreements for the Construction of Real Estate';
- IFRIC 16 'Hedges of Net Investment in a Foreign Operation';
- IFRIC 17 'Distribution of Non-cash Assets to Owners'; and
- IFRIC 18 'Transfer of Assets from Customers'.

From 1 January 2010 the Group has applied Improvements to IFRS (issued by IASB April 2009), which includes amendments to IAS 17 'Leases'. The change in accounting policy (see below) has been applied retrospectively and has had no material impact on earnings per share. See Note 15 for further information.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been applied to all the years presented in the financial statements and have been applied consistently by Group entities, unless otherwise stated.

### Revenue

Revenue principally relates to income derived directly from the holding of horserace meetings, including industry-related income from the HBLB, and the non-raceday use of the racecourse facilities. The Group also derives income from the operation of two hotels located at Lingfield Park and Wolverhampton Racecourses and two golf courses located at Lingfield Park and Southwell Racecourses.

### Media rights

Income received from license to bookmakers for use in LBOs and from ATR in respect of media rights over the broadcasts from the Group's racecourses is recognised within revenue in the period in which the relevant race meetings are held.

At 29 March 2004, the Group held within accruals and deferred income the sum of £3.2m in respect of deferred media rights income received under a previous ATR contract. This income has been released to revenue on a straight-line basis over a five-year period ending in June 2009.

### Horserace Betting Levy Board revenue

The HBLB provides revenue to racecourses to support the holding of race meetings, particularly through prize money and integrity cost funding. For taxation purposes, this revenue can be waived by racecourses, with HBLB approval, and transferred to 'capital credits', which is a tax-efficient scheme operated by the HBLB. These capital credits may be claimed by racecourses against expenditure on HBLB approved capital projects and, as a result, are not assessable to tax. It is the Group's policy that, as they are derived from, and are dependent upon, trading activities, capital credit receipts are recognised within revenue when the race meeting to which they relate is held. A corresponding receivable is recognised until the cash is received.

### Admissions revenue and other racing income

Admissions revenue, which includes ticket and hospitality sales, and other racing income, which includes sponsorship, on-course betting commission, racecards and advertising, is recognised in profit or loss once a race meeting has been held. Income from the sale of annual badges is released to revenue on a straight-line basis over the number of race meetings the annual badge covers.

### Revenue from the utilisation of racecourse facilities

The Group's racecourses receive income for the use of the racecourse facilities for conferencing, banqueting, exhibitions, weddings and other events. This income is recognised in profit or loss once an event has taken place.

### Catering income

Revenue is received from food and beverage provided by the Group's in-house catering and sold through retail units, restaurant dining, hospitality packages and non-raceday event packages. Income is also received through commissions payable from external mobile retail units. This income is recognised in profit or loss once a race meeting or non-raceday event has been held.

### 3 Accounting policies continued

#### Other leisure

The Group operates two hotels, at Lingfield Park Racecourse and Wolverhampton Racecourse, two golf courses, at Lingfield Park Racecourse and Southwell Racecourse, and a health club and spa at Lingfield Park Racecourse. Revenue from these operations is recognised when goods or services have been provided (e.g. – hotel stay, golf pay and play, golf pro-shop sales, spa usage, monthly health club memberships), with the exception of income from golf club memberships, which is recognised on a straight-line basis over the period of membership.

#### Basis of consolidation

##### Subsidiaries

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. Subsidiaries are consolidated from the date control commences until the date control ceases. The consolidated financial statements present the results of the Group as if they formed a single entity. Intercompany transactions and balances between Group companies are eliminated in full.

##### Associates and joint ventures

Associate undertakings are entities in which the Group holds a long-term non-controlling interest and has the power to influence (but not control) the financial and operating policy decisions of the entity. Joint ventures are entities in which the Group holds a long-term interest and has joint control under a contractual arrangement for strategic financial and operating decisions.

From 1 January 2010, acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Prior to 1 January 2010, goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

##### Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as the fair value of the consideration transferred; plus the recognised amount of any non-controlling interests in the acquiree; plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

For acquisitions between 1 January 2004 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2003. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework, UK GAAP.

##### Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition see the Business Combinations policy.

##### Other intangible assets

Directly attributable incremental costs associated with contracts are capitalised as intangible assets. These are measured initially at cost and are amortised over their useful economic lives.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2010

### 3 Accounting policies continued

#### Financial instruments

##### Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables. Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

**Cash and cash equivalents:** This category comprises cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents.

**Other:** These are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost using the effective interest rate method, less any provision for impairment.

Other financial liabilities include the following items:

- Bank borrowings, which are recognised at the outstanding amount advanced less issue costs which are accreted to the income statement over the life of the borrowing facility. Interest expense on outstanding borrowings is charged to the income statement as incurred; and
- Interest-free loans, which are initially recognised at the present value of the amount advanced. These loans are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability in the balance sheet.

##### Derivative financial instruments

The Group holds derivative financial instruments to hedge its interest rate risk exposures. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for in profit or loss.

##### Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

##### Retirement benefits: defined contribution schemes

Contributions to the Group's defined contribution pension scheme are recognised as an employee benefit expense in profit or loss when they are due.

##### Share-based payments

Where share options or conditional shares are awarded to employees, the fair value of the instruments at the date of grant is charged to the statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

##### Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a 'finance lease'), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of fair value and present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an 'operating lease'), the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

The lease in respect of Worcester Racecourse has been classified as a finance lease. The lease in respect of Doncaster Racecourse was previously split into an operating element, in respect of the land, and a finance element, in respect of the buildings. Under the new accounting policy, the land has been reclassified as a finance lease. This reclassification has been applied retrospectively. See Note 15 for further information.

### 3 Accounting policies continued

#### Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for differences arising on:

- The initial recognition of goodwill;
- Goodwill for which amortisation is not tax deductible;
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- Investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income tax levied by the same authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date.

#### Earnings per share

The Group presents basic and diluted earnings per share ('EPS') data for its ordinary shares. Basic EPS are calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS are determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

#### Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when paid by the Company. In the case of final dividends, this is when approved by the shareholders at the Annual General Meeting.

#### Property, plant and equipment

Items of property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised as part of the acquisition or construction cost.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within 'other income' in profit or loss.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Freehold land is not depreciated. Depreciation is recognised in profit or loss on all other items of property, plant and equipment to write off the cost, less estimated residual values of items, over their expected useful economic lives. Depreciation is provided on a straight-line basis at the following rates:

Freehold buildings	2% per annum
Leasehold land and buildings	Over the length of lease to residual value
All-weather tracks	Surface 5% to 10% per annum Base 2.5% to 3.3% per annum
Plant and machinery	2.5% to 33% per annum
Fixtures and fittings	5% to 25% per annum
Motor vehicles	25% per annum

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2010

### 3 Accounting policies continued

#### Impairment

##### Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

##### Non-financial assets

Impairment tests in respect of goodwill are undertaken annually on 31 December. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, in this case being the individual racecourses. Where the carrying value of a racecourse exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in profit or loss. An impairment loss in respect of goodwill is not reversed.

Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying value may not be recoverable. If any such indication exists, then the asset's recoverable amount is estimated with the impairment recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### Finance income and expenses

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, losses on hedging instruments that are recognised in profit or loss and finance lease interest. All borrowing costs, with the exception of those described above, are recognised in profit or loss using the effective interest method.

#### Inventories

Inventories are recognised at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle. Net realisable value is the estimated selling price in the ordinary course of business.

#### Government grants

Government grants received on capital expenditure are initially recognised on receipt as deferred income. The deferred income balance is recognised in profit or loss proportionally over the period in which the depreciation on those assets is charged.

#### Operating segments

The operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors.

#### Separately disclosed items

These are items which, in management's judgement, need to be disclosed by virtue of their size or incident in order for the user to obtain a proper understanding of the financial information.

### 3 Accounting policies continued

#### New standards and interpretations not yet adopted

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee have issued the following standards and interpretations which are not yet effective for the year ended 31 December 2010 and have not yet been applied in preparing these consolidated financial statements, but which are to be applied to financial statements with periods commencing on or after the following dates:

International Accounting Standards (IAS/IFRS)	EU-endorsed effective date
Amendments to IAS 32 'Financial Instruments: Presentation'	1 February 2010
Improvements to IFRS (issued May 2010)	1 January 2011
Revised IAS 24 'Related Party Disclosures'	1 January 2011
Amendments to IFRS 7 'Financial Instruments: Disclosures'	1 July 2011
International Financial Reporting Interpretations Committee (IFRIC)	EU-endorsed effective date
IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'	1 July 2010
Amendments to IFRIC 14 'The Limit on a Defined Benefit'	1 January 2011

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of application and all relevant aspects of Improvements to IFRS will be applied.

### 4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### Derivatives

The fair value of interest rate hedging agreements is based on bank valuations.

#### Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

#### Share-based payment transactions

The fair value of employee stock options is measured using the Black-Scholes Pricing Analysis. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The fair value of employee LTIP shares is based upon the market value at the time of grant, adjusted for management's assessment of the probability of the scheme criteria being met at the vesting dates in respect of service and non-market performance conditions.

#### Trade receivables and payables

For trade receivables and payables the carrying amount is a reasonable approximation of fair value.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2010

### 5 Revenue

Segmental information is disclosed in Note 10. Revenue is analysed as follows:

	2010 £'000	2009 £'000
HBLB	17,727	21,542
Media rights income in relation to LBOs	11,611	11,628
Other racecourse-related revenue	34,645	32,069
	<b>63,983</b>	<b>65,239</b>

### 6 Profit from operations

	2010 £'000	2009 £'000
This has been arrived at after charging/(crediting):		
Prize money	14,776	17,501
Staff costs (Note 8)	10,727	9,616
Depreciation of property, plant and equipment (Note 16)	3,786	3,479
Auditors' remuneration	203	236
Profit on disposal of fixed assets:		
– Profit on disposal of the land and buildings and fixtures and fittings associated with Lingfield Park leisure club (Note 16)	–	(418)
– Profit on disposal of other fixed assets	(31)	(2)
Amortisation of Government grants	(72)	(74)

Auditors' remuneration can be analysed as follows:

	2010 £'000	2009 £'000
Audit fees applicable to the Company's consolidated accounts	17	8
Audit fees applicable to the statutory audit of the accounts of subsidiaries	104	104
Advisory services (debt and finance restructuring advice)	82	124
	<b>203</b>	<b>236</b>

### 7 Other operating income

	2010 £'000	2009 £'000
Separately disclosed items		
Profit on disposal of the land and buildings and fixtures and fittings associated with Lingfield Park leisure club (Note 16)	–	418

## 8 Staff numbers and costs

The average number of persons employed by the Group (including Directors and part-time staff but excluding raceday casual staff) during the year, analysed by category, was as follows:

	2010 Number	2009 Number
Management and administration	118	150
Customer services	242	196
	<b>360</b>	<b>346</b>
	2010 £'000	2009 £'000
Staff costs (including Directors)		
Wages and salaries	9,318	8,607
Contributions to defined contribution pension plans	170	175
Share-based payment expense/(credit) (Note 32)	320	(28)
Employer's national insurance contribution and similar taxes	919	862
	<b>10,727</b>	<b>9,616</b>

The Company employs casual staff to assist during racedays. The number of casual staff varies between 30 and 500, depending on the raceday. Casual staff are not included in the staff numbers or costs stated above. The aggregate payroll in respect of casual staff for 2010 was £3,499,000 (2009: £3,868,000).

## 9 Directors' and key management remuneration

	2010 £'000	2009 £'000
Directors' remuneration		
Directors' emoluments	1,038	972
Contributions to defined contribution pension plans	51	51
Share-based payment expense/(credit) (Note 32)	203	(6)
	<b>1,292</b>	<b>1,017</b>

There were three Directors (2009: three) in the Company's defined contribution pension scheme during the year.

Further disclosures relating to the remuneration of each individual Director are included in the Remuneration Report, of which the information on pages 33 to 36 has been audited. Directors' emoluments include amounts attributed to benefits-in-kind on which the Directors are assessed for tax purposes. This may differ from the cost to the Group of providing those benefits included in Notes 8 and 9.

	2010 £'000	2009 £'000
Key management remuneration (including Directors)		
Wages and salaries	1,628	1,667
Contributions to defined contribution pension plans	86	95
Share-based payment expense/(credit) (Note 32)	288	(29)
	<b>2,002</b>	<b>1,733</b>

A share-based payment credit arose in 2009 as a result of adjusting the cumulative expense in relation to the Group's LTIP awards to reflect current vesting expectations (Note 32).

There are five employees (excluding Directors) defined as being key management for 2010 (2009: six).

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2010

### 10 Segment information

The Group has one reportable operating segment: racecourse operations. This business segment arises in the UK. This is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker for the purposes of evaluating performance and deciding upon resource allocation. The chief operating decision-maker has been identified as the Board of Directors of Arena Leisure Plc.

	Racecourse operations		Total	
	2010 £'000	2009 Restated* £'000	2010 £'000	2009 Restated* £'000
Total external revenue	63,983	65,239	63,983	65,239
<b>Profit from operations</b>	<b>7,247</b>	<b>6,985</b>	<b>7,247</b>	<b>6,985</b>
Pre-opening costs associated with Lingfield Park hotel development	(484)	(163)	(484)	(163)
<b>Segment profit from operations before other operating income</b>	<b>6,763</b>	<b>6,822</b>	<b>6,763</b>	<b>6,822</b>
Other operating income	–	418	–	418
<b>Segment profit from operations</b>	<b>6,763</b>	<b>7,240</b>	<b>6,763</b>	<b>7,240</b>
Central operations			(2,381)	(2,461)
Share-based payment			(320)	28
Share of joint venture result			1,352	515
Finance income			267	458
Finance expense			(2,058)	(1,659)
<b>Profit for the year</b>			<b>3,623</b>	<b>4,121</b>
<b>Other information</b>				
Additions to property, plant and equipment	9,089	19,249	9,089	19,249
Segment assets	167,946	150,777	167,946	150,777
Segment liabilities	(88,658)	(74,048)	(88,658)	(74,048)
Intangible assets	6,072	6,035	6,072	6,035
Investment in joint ventures	4,381	3,475	4,381	3,475

\* Relates to a change in the accounting policy for leased assets. See Notes 2 and 15 for further information.

Total external revenue is analysed in Note 5. The Group derives a significant proportion of its annual revenue from the HBLB and from its media rights agreement with bookmakers.

### 11 Finance income and expense

	2010 £'000	2009 £'000
<b>Finance income</b>		
Bank interest receivable	72	367
Other interest receivable (Note 33)	69	89
Derivative liability held for risk management (Note 26)	126	2
	<b>267</b>	<b>458</b>
<b>Finance expense</b>		
Bank interest payable	(1,672)	(1,240)
Finance lease interest	(113)	(64)
Amortisation of previous gain on present value of interest-free loans	(273)	(355)
	<b>(2,058)</b>	<b>(1,659)</b>
<b>Net finance expense</b>	<b>(1,791)</b>	<b>(1,201)</b>

The valuation of the Group's interest rate derivative contracts at 31 December 2010 has resulted in a liability of £1,328,000 (2009: £1,454,000) being recorded on the balance sheet and a credit of £126,000 (2009: £2,000) to the statement of comprehensive income, which has been separately disclosed.

A further £844,000 (2009: £735,000) of interest costs relating to development projects in progress have been capitalised in the year (Note 16).

## 12 Income tax expense

	2010 £'000	2009 £'000
<b>UK corporation tax</b>		
Current and deferred tax expense	—	—

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to profits for the year are as follows:

	2010 £'000	2009 £'000
<b>Tax reconciliation</b>		
Factors affecting tax for the period:		
– Profit on ordinary activities before taxation	3,623	4,121
Profit on ordinary activities at standard rate of corporation tax in the UK of 28% (2009: 28%)	1,014	1,154
<b>Effects of</b>		
Expenses not deductible for tax purposes	417	112
Non-taxable income	(474)	(20)
Adjustment for share of profit of joint venture	(379)	(144)
(Decrease)/increase in unrecognised tax losses	(184)	1,095
Utilisation of brought forward tax losses	(167)	(2,197)
Effect of changes in tax rates on deferred tax (Note 27)	(227)	—
<b>Total tax charge for the year</b>	—	—

At the year end, corporation tax losses representing trading and non-trading losses of £64,363,000 (2009: £63,988,000) were available for utilisation in future years subject to agreement with HM Revenue & Customs.

## 13 Earnings per share

	2010 £'000	2009 £'000
<b>Earnings</b>		
Profit for the year attributable to equity shareholders of the parent company	3,731	4,213
	2010 Number million	2009 Number million
<b>Weighted average number of shares</b>		
Weighted average number of shares used in the calculation of basic and adjusted EPS	364.2	364.2
<b>Dilutive potential ordinary shares</b>		
Employee share options	—	—
<b>Weighted average number of shares used in the calculation of diluted EPS</b>	364.2	364.2

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 and LTIP shares excluded in 2010 and 2009 are disclosed in Note 32.

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2010

### 14 Dividends

	2010 £'000	2009 £'000
Final dividend of 0.38p (2009: nil) per ordinary share proposed and paid during the year relating to the previous year's results	1,384	–

The Directors propose to pay a final dividend for 2010 of 0.38p per ordinary share totalling £1,384,000 (2009: 0.38p per ordinary share totalling £1,384,000). This will be recognised as a deduction to reserves in the current financial year.

### 15 Change in accounting policy: leased assets

The 99 year lease in respect of Doncaster Racecourse was previously split into an operating element, in respect of the land, and a finance element, in respect of the buildings. Under the new accounting policy, the land has been reclassified as a finance lease. This reclassification has been applied retrospectively and, in accordance with IAS 8, the prior year balance sheet figures have been restated, with the net effect recognised in equity. In the opinion of the Directors, the impact of the change is not material and therefore a third balance sheet has not been presented.

The changes to the balance sheet can be summarised as follows:

	At 31 December 2009 As reported £'000	Impact of change in policy £'000	At 31 December 2009 Restated £'000
Property, plant and equipment	135,350	296	135,646
Current liabilities – loans and borrowings	(12,851)	(2)	(12,853)
Current liabilities – accruals and deferred income	(4,799)	48	(4,751)
Non-current liabilities – loans and borrowings	(31,574)	(350)	(31,924)
Retained earnings	51,170	(8)	51,162
Impact on:			
– Equity attributable to shareholders of the parent company	75,020	(8)	75,012
– Non-controlling interest	1,717	–	1,717
Net impact on equity	76,737	(8)	76,729

## 16 Property, plant and equipment

	Assets under construction £'000	Long leasehold land and buildings Restated* £'000	Freehold land, buildings and all-weather tracks £'000	Plant and machinery £'000	Fixtures, fittings and vehicles £'000	Total Restated* £'000
<b>Cost</b>						
At 1 January 2009	13,286	30,939	64,820	19,151	9,351	137,547
Additions	17,682	237	738	408	135	19,200
Reclassifications	99	(620)	-	516	5	-
Disposals	-	-	(119)	(84)	(156)	(359)
At 31 December 2009	31,067	30,556	65,439	19,991	9,335	156,388
Additions	542	127	5,985	1,379	1,056	9,089
Reclassification	(26,535)	-	20,171	4,958	1,406	-
Disposals	-	(199)	(37)	(90)	(86)	(412)
<b>At 31 December 2010</b>	<b>5,074</b>	<b>30,484</b>	<b>91,558</b>	<b>26,238</b>	<b>11,711</b>	<b>165,065</b>
<b>Depreciation and impairment losses</b>						
At 1 January 2009	(1,050)	(507)	(5,978)	(4,608)	(5,371)	(17,514)
Charged in the year	-	(274)	(845)	(1,489)	(874)	(3,482)
Disposals	-	-	68	75	111	254
At 31 December 2009	(1,050)	(781)	(6,755)	(6,022)	(6,134)	(20,742)
Charged in the year	-	(243)	(930)	(1,679)	(934)	(3,786)
Reclassification	-	(1)	-	1	-	-
Disposals	-	-	5	80	63	148
<b>At 31 December 2010</b>	<b>(1,050)</b>	<b>(1,025)</b>	<b>(7,680)</b>	<b>(7,620)</b>	<b>(7,005)</b>	<b>(24,380)</b>
<b>Net book value</b>						
At 31 December 2008	12,236	30,432	58,842	14,543	3,980	120,033
At 31 December 2009	30,017	29,775	58,684	13,969	3,201	135,646
<b>At 31 December 2010</b>	<b>4,024</b>	<b>29,459</b>	<b>83,878</b>	<b>18,618</b>	<b>4,706</b>	<b>140,685</b>

\* Relates to a change in the accounting policy for leased assets. See Notes 2 and 15 for further information.

Security in relation to the Group's freehold land and buildings is disclosed in Note 25.

Assets under construction consist of expenditure in respect of proposed developments at Wolverhampton, Royal Windsor, Folkestone and Doncaster Racecourses. These costs will be depreciated once the developments are complete and available for use. The expenditure includes a variety of professional fees incurred in the design and planning process for the individual developments, such as building architects, engineers, surveyors, cost consultants, planning consultants, legal fees and specialist reports.

Certain capitalised costs have been reclassified after the completion of development projects following advice from quantity surveyors. The Directors allocate costs based on their best estimate, and appropriate reclassifications are made following the quantity surveyor's report.

Additions include £844,000 (2009: £735,000) relating to interest capitalised in relation to the development projects in progress at Doncaster, Lingfield Park, Wolverhampton and Royal Windsor. Interest was capitalised at LIBOR plus 1%, LIBOR plus 2.5% or LIBOR plus 2.0% to 3.25%, as applicable. There is no resulting impact on the tax charge for the year (2009: none).

The land and buildings and fixtures and fittings associated with the Lingfield Park leisure club were sold for £615,000 in November 2009, resulting in a profit on disposal of £418,000.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2010

### 16 Property, plant and equipment continued

The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases:

	2010 £'000	2009 Restated* £'000
Long leasehold land and buildings	29,459	29,775

\* Relates to a change in the accounting policy for leased assets. See Notes 2 and 15 for further information.

At 31 December 2010, the gross original cost of all assets with a £nil net book value still in use was £3,681,000 (2009: £3,564,000).

### 17 Intangible assets

	Goodwill £'000	Other intangibles £'000	Total £'000
Other intangible assets			
At 31 December 2008	-	-	-
Additions	-	439	439
At 31 December 2009	-	439	439
Additions	-	37	37
At 31 December 2010	-	476	476
Goodwill			
Relating to the Royal Windsor Racecourse business combination	2,870	-	2,870
Relating to the Wolverhampton Racecourse business combination	1,157	-	1,157
Relating to the Southwell Racecourse business combination	873	-	873
Relating to the Doncaster Racecourse business combination	696	-	696
At 31 December 2008, 31 December 2009 and 31 December 2010	5,596	-	5,596
<b>Total intangible assets at 31 December 2010</b>	<b>5,596</b>	<b>476</b>	<b>6,072</b>
Total intangible assets at 31 December 2009	5,596	439	6,035
Total intangible assets at 31 December 2008	5,596	-	5,596

The additions to intangible assets in 2009 and 2010 represent costs incurred specifically in relation to the Group's new media rights agreement. The costs will be amortised on a straight-line basis over the five-year term of the agreement, which commences on 1 January 2012.

A review of the carrying value of goodwill arising from the acquisition of the Group's racecourses was undertaken at 31 December 2010. The Board has conducted its review by comparing the carrying value of each racecourse with its recoverable amount. The recoverable amount of each racecourse was based on value in use.

Value in use was determined by discounting the expected future pre-tax cash flows generated from the continuing use of each racecourse using the following key assumptions:

- Cash flows were projected based on management's approved budgets and forecasts for a five-year period;
- A terminal value was based on an extrapolation of the estimate of the future cash flows beyond the five-year period into perpetuity and a pre-tax discount rate. No growth was assumed in the terminal value (2009: none);
- For the purpose of this impairment review only, the estimated pre-tax cash flows assume a standard growth rate of 5.0% per annum (2009: 5.0%), on top of which the new terms of the media rights agreement with SIS have been overlaid, except that the projections for Doncaster Racecourse have been moderated to reflect earnings reaching stabilisation following its redevelopment; and
- A pre-tax discount rate of 8.0% (2009: 8.0%) was applied in determining the terminal value and the recoverable amounts of the racecourses. The discount rate was based on an adjusted estimated weighted average cost of capital.

## 17 Intangible assets continued

The resultant net present values were compared to the carrying values of each racecourse and were found to exceed the asset value of each racecourse plus the goodwill value. As a result of this review, the Board does not consider that any impairment provision is necessary.

The Directors have considered the sensitivity of the cash flow projections to the key assumptions (based on adjusted discount rates and growth rate) and have concluded, given the headroom in the projections, that there would be no significant change to the carrying value of the assets.

The Directors have identified two key assumptions for which there could be a reasonably possible change that could cause the carrying amount to exceed the recoverable amount. A reduction in projected cash flows of more than 20.0% (2009: 25.0%) or a change in the assumed discount rate to more than 10.0% (2009: 11.0%) would be required before the estimated recoverable amount of any single asset becomes equal to its carrying value.

## 18 Subsidiaries

The principal subsidiaries of Arena Leisure Plc, in which the Company owns 100% of the ordinary share capital, with the exception of Worcester Racecourse Ltd (81%) and The Doncaster Racecourse Management Company Ltd (81%), are as follows:

Name	Country of incorporation	Principal activity
Windsor Racing Ltd	England & Wales	Racecourse
Lingfield Park Ltd	England & Wales	Racecourse/Hotel and Leisure
Wolverhampton Racecourse Ltd	England & Wales	Racecourse/Hotel
Southwell Racecourse Ltd	England & Wales	Racecourse
Folkestone Race Course Ltd	England & Wales	Racecourse
Worcester Racecourse Ltd***	England & Wales	Racecourse
Windsor Concessions Ltd	England & Wales	Racecourse concessions
The Doncaster Racecourse Management Co Ltd**	England & Wales	Racecourse
The Windsor Racecourse Co Ltd	England & Wales	Holding company
Arena Leisure Racing Ltd*	England & Wales	Racecourse operations
Arena Leisure Catering Ltd*	England & Wales	Racecourse catering operations

\* Denotes direct holdings.

\*\* Doncaster non-controlling interest has been recognised on the grounds that the non-controlling interest has an obligation to fund up to a specified amount.

\*\*\* Worcester non-controlling interest has not been recognised on the grounds of net liabilities and that the non-controlling interest has no obligation to fund.

## 19 Joint ventures

The joint venture company in which the Company owns an equity share is as follows:

	Equity share	Classification	Country of registration	Principal activity
Attheraces Holdings Ltd (trading as At The Races)	45.85%	Joint venture	England & Wales	Racing broadcaster

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2010

### 19 Joint ventures continued

The movement in the Group's investment in its joint venture operation was as follows:

	Joint venture	
	2010 £'000	2009 £'000
<b>Cost</b>		
At 1 January and 31 December	1,580	1,580
<b>Share of profit</b>		
At 1 January	(2,859)	(3,374)
Profit for the year	1,352	515
At 31 December	(1,507)	(2,859)
<b>Loans</b>		
At 1 January	4,754	4,965
Interest	69	89
Repayments	(515)	(300)
At 31 December	4,308	4,754
<b>Net book value at 31 December</b>	<b>4,381</b>	<b>3,475</b>

Arena Leisure Plc and BSkyB, as part of their shareholders' agreement, have a commitment to fund ATR by way of loans up to an amount not exceeding £10,000,000 pro rata to shareholding. Arena Leisure is therefore committed to fund up to £5,000,000, of which £4,308,000 has been provided by way of loans at 31 December 2010 (2009: £4,754,000). These loans are considered, in substance, to form part of the Company's net investment in ATR. Settlement of these loans in full is neither planned nor expected to occur in the foreseeable future.

The summary financial information for the ATR joint venture, not adjusted for the 45.85% ownership held by the Group, is as follows:

	2010 £'000	2009 £'000
Non-current assets	348	187
Current assets	8,437	7,026
Current liabilities	(3,559)	(4,135)
Non-current liabilities	(8,513)	(9,313)
Net liabilities	(3,287)	(6,235)
Income	19,162	16,060
Expenses	(16,213)	(14,937)
Profit after tax	2,949	1,123

### 20 Inventories

	2010 £'000	2009 £'000
Consumables	471	422

In 2010, consumables recognised as cost of sales amounted to £3,877,000 (2009: £3,429,000).

### 21 Trade and other receivables

	2010 £'000	2009 £'000
Trade receivables	11,136	2,590
Other receivables	228	688
Prepayments and accrued income	1,874	1,570
	<b>13,238</b>	<b>4,848</b>

All amounts shown above are due within one year.

## 21 Trade and other receivables continued

An analysis of the interest rate receivable on financial assets and information about fair values, exposure to credit risk and impairment losses related to trade receivables are given in Note 26.

## 22 Trade and other payables

	2010 £'000	2009 £'000
Trade payables	(3,470)	(4,378)
Sales and social security taxes	(777)	(562)
Derivatives	(1,328)	(1,454)
Other payables	(246)	(356)
	<b>(5,821)</b>	<b>(6,750)</b>

Derivatives represent the fair value of interest rate hedging agreements used to manage interest rate risk. Information on exposure to interest rate risk is disclosed in Note 26.

## 23 Cash and cash equivalents

	2010 £'000	2009 £'000
Cash and cash equivalents	3,099	351
Overdrafts (Notes 25 and 26)	—	(1,874)
Net cash and cash equivalents	3,099	(1,523)
Increase/(decrease) in cash and cash equivalents	4,622	(699)
Cash and cash equivalents at beginning of year	(1,523)	(824)
Cash and cash equivalents at end of year	3,099	(1,523)

The Group's exposure to interest rate risk is disclosed in Note 26.

## 24 Accruals and deferred income

	2010 £'000	2009 Restated* £'000
<b>Current liabilities</b>		
Accruals	(1,967)	(2,430)
Deferred income	(2,651)	(2,321)
	<b>(4,618)</b>	<b>(4,751)</b>
<b>Non-current liabilities</b>		
Deferred income	(35,308)	(15,896)

\* Relates to a change in the accounting policy for leased assets. See Notes 2 and 15 for further information.

Deferred income includes amounts relating to deferred Government grants to Doncaster and Wolverhampton Racecourses. The amounts originally granted were £882,000 to Doncaster Racecourse and £2,298,000 to Wolverhampton Racecourse. The grants are being amortised over 50 years.

Also included within deferred income is a £12,500,000 advanced payment received from SIS in July 2009 upon signing a new agreement for the provision of horseracing content from Arena's racecourses into licensed betting offices in the United Kingdom and Ireland and two other amounts in relation to the same agreement: a further £12,500,000 advanced payment received in July 2010 and £7,000,000 due for payment in July 2011, which has been invoiced and is included within trade receivables. The income deferred will be recognised in profit or loss on a straight-line basis over the five-year term of the agreement, which commences on 1 January 2012, and is classed as non-current.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2010

### 25 Loans and borrowings

The following provides information on the contractual terms of the Group's interest-bearing loans and other borrowings, which are measured at amortised cost. For more information on the Group's exposure to interest rate and liquidity risk, see Note 26.

	2010 £'000	2009 Restated* £'000
<b>Current liabilities</b>		
Bank loans	(9,829)	(11,500)
Finance lease liabilities	(2)	(6)
Other loans	(1,411)	(1,347)
	<b>(11,242)</b>	<b>(12,853)</b>
<b>Non-current liabilities</b>		
Bank loans	(29,158)	(28,000)
Finance lease liabilities	(1,009)	(1,011)
Other loans	(1,502)	(2,913)
	<b>(31,669)</b>	<b>(31,924)</b>

\* Relates to a change in the accounting policy for leased assets. See Notes 2 and 15 for further information.

Other loans represent interest-free loans from the HBLB and, as required under IAS 39, are shown at present value with a net loss of £273,000 (2009: £355,000) taken to the statement of comprehensive income (Note 11). The balance outstanding on the HBLB loans (current and non-current) is £2,913,000 (2009: £4,820,000).

### Terms and repayment schedule

In March 2010, the Group agreed £55.0m of committed banking facilities with its relationship bank (LBG), which replaced all previous bank facilities, as outlined in the Financial Review on pages 23 to 24. The secured term loan reduces by £5.0m at 31 January and 31 July each year, until 31 January 2012, at which point it reduces by £2.5m each quarter.

Terms and conditions of outstanding loans were as follows:

			At 31 December 2010		At 31 December 2009	
	Nominal interest rate	Year of maturity	Face value £'000	Carrying amount £'000	Face value Restated* £'000	Carrying amount Restated* £'000
Secured bank revolving credit loan	LIBOR + 2.0%–3.25%	2013	9,500	9,313	–	–
Secured bank term loan	LIBOR + 2.0%–3.25%	2013	30,000	29,674	–	–
Secured bank term loan	LIBOR + 2.5%	2013	–	–	9,500	9,500
Secured bank term loan	LIBOR + 1%	2013	–	–	7,000	7,000
Secured bank revolving credit loan	LIBOR + 1%	2010	–	–	10,000	10,000
Secured bank term loan	LIBOR + 1%	2018	–	–	13,000	13,000
Bank overdraft (Note 23)	Base + 1%		–	–	1,115	1,115
Bank overdraft (Note 23)	LIBOR + 1%		–	–	759	759
HBLB interest-free loans	0%	2012	3,200	2,913	4,820	4,260
Finance lease liabilities – Doncaster Racecourse	12.74%	2106	718	718	722	722
Finance lease liabilities – Worcester Racecourse	5.75%	2049	293	293	295	295
<b>Total interest-bearing liabilities</b>			<b>43,711</b>	<b>42,911</b>	<b>47,211</b>	<b>46,651</b>

\* Relates to a change in the accounting policy for leased assets. See Notes 2 and 15 for further information.

All loans are in sterling. The bank loans and overdrafts are secured by a fixed and floating charge on the assets and undertakings of the Group companies and a first legal charge on all the freehold and leasehold properties owned by the Group. This security is subject to deeds of priority and permitted charges in favour of the HBLB in respect of security for interest-free loans provided to the Group, with the exception of Southwell Racecourse which, until 31 December 2011, is subject to deeds of priority and permitted charges in favour of SIS in respect of security for the advanced payments relating to the new media rights agreement commencing 1 January 2012.

## 25 Loans and borrowings continued

### Borrowing facilities

The Group has undrawn committed borrowing facilities available at 31 December 2010 in which all conditions have been met:

	Floating rate 2010 £'000	Floating rate 2009 £'000
Expiry within one year	—	4,626
Expiry between one and two years	—	—
Expiry in more than two years	10,500	13,000
	<b>10,500</b>	<b>17,626</b>

### Finance lease liabilities

Finance lease payments are due as follows:

	Minimum lease payments 2010 £'000	Interest 2010 £'000	Present value 2010 £'000
Not later than one year	119	(117)	2
Later than one year and not later than five years	476	(466)	10
Later than five years	9,746	(8,747)	999
	<b>10,341</b>	<b>(9,330)</b>	<b>1,011</b>

	Minimum lease payments 2009 Restated* £'000	Interest 2009 Restated* £'000	Present value 2009 Restated* £'000
Not later than one year	119	(113)	6
Later than one year and not later than five years	476	(467)	9
Later than five years	9,865	(8,863)	1,002
	<b>10,460</b>	<b>(9,443)</b>	<b>1,017</b>

\* Relates to a change in the accounting policy for leased assets. See Notes 2 and 15 for further information.

The lease in respect of Doncaster Racecourse provides for additional future payments that are contingent upon changes in the Retail Price Index. Contingent rents will be recognised in the income statement when payable.

## 26 Financial instruments

### Risk management

The Board has overall responsibility for the Group's risk management framework. The Finance Director is responsible for developing and monitoring the Group's risk management policies and reporting to the Board.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate controls and to monitor risks and adherence to controls. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Board oversees how management monitors compliance with the Group's risk management policies and procedures.

The Group is exposed through its use of financial instruments to one or more of the following financial risks:

- Interest rate risk;
- Liquidity risk; and
- Credit risk.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2010

### 26 Financial instruments continued

The policy for each of the above risks is described in more detail below.

#### Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the Group's profits. The objective of management is to control interest rate risk exposures.

With the exception of interest-free borrowing from the HBLB, the Group's bank borrowings are at floating interest rates. All of the Group's borrowings are in sterling.

In 2010, the Group entered into an interest rate swap arrangement in respect of £15.0m of debt at 4.77% which became effective on 31 March 2010. The amount hedged under this instrument reduces to £10.0m from 1 April 2011 and to £5.0m from 1 April 2012. This swap replaced the Group's cap and collar arrangement that had been effective from 1 October 2007. In 2008, the Group entered into an interest rate swap arrangement in respect of £7.5m of debt and an interest rate cap arrangement in respect of £2.5m of debt, both of which became effective on 2 October 2008, and for which the effective LIBOR rate is a maximum of 5.27%. As at 31 December 2010, the Group was exposed to interest rate risk on debt above these amounts. The Board constantly monitors the financial markets and the Group's future borrowing requirements to ensure that this policy remains in the Group's interest.

#### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity risk is managed centrally on a group basis to ensure the Group will have sufficient liquidity to meet its liabilities when they fall due.

Bank facilities are agreed at appropriate levels having regard to the Group's forecast operating cash flows and future capital expenditure requirements. In March 2010, the Group agreed £55.0m of committed banking facilities with its relationship bank (LBG), which replaced all previous bank facilities, as outlined in the Financial Review on pages 23 to 24.

At 31 December 2010, the Group maintained the following lines of credit, both of which are with LBG:

- £20.0m Group secured revolving credit loan which can be drawn for working capital and general corporate use. Interest is payable at between LIBOR plus 2.0% and LIBOR plus 3.25%; and
- £30.0m Group secured term loan which can be drawn for working capital and general corporate use. Interest is payable at between LIBOR plus 2.0% and LIBOR plus 3.25%. This loan reduces by £5.0m at 31 January and 31 July each year until 31 January 2012, at which point it reduces by £2.5m each quarter.

It is the Group's policy not to commence construction on development projects until funding has been secured.

Further details on the loan terms, repayments and committed borrowing facilities of the Group at 31 December 2010 are disclosed in Note 25.

#### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group has limited exposure to credit risk. Income derived from much of the Group's raceday activity is paid on the day of the event or is invoiced and paid in advance of the event. With the exception of a small number of significant centrally negotiated transactions, credit control is managed on a local basis.

Although the Group is exposed through the derivation of a high proportion of its income from a small number of sources, these sources are: the HBLB, which is operated under Government statute; bookmakers, for which a central contract exists for fees payable in return for transmission of pictures of live racing into LBOs across the UK and Ireland; and the Group's 45.85% joint venture company, ATR, to which the Group sells its media rights. It is therefore the view of the Board that credit risk is minimal.

The Group has established an allowance for impairment, representing its estimate of incurred losses in respect of trade and other receivables. This allowance relates to specific individual exposures.

## 26 Financial instruments continued

### Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company's objective for managing its capital is to ensure that Group entities will be able to continue as a going concern while maximising the return to shareholders, as well as sustaining the future development of its business. In order to maintain or adjust the capital structure, Arena may alter the total amount of dividends paid to shareholders, return capital to shareholders, issue new shares, draw down additional debt or sell assets to reduce debt. It is the Group's policy to look for a return of in excess of 10% on net cash cost when evaluating development projects. The Board monitors the level of dividends to ordinary shareholders.

It is the Board's policy to ensure there is a strong link between the remuneration of the Directors and other key employees and the performance of the Group. Final grants under the Arena Leisure Discretionary Share Option Scheme were made in 2006 and shareholder approval was obtained in April 2007 for a new long-term incentive plan ('LTIP'), with initial awards being made in 2007 and further awards made each year thereafter.

Arena's capital structure consists of debt, which includes the loans and borrowings disclosed in Note 25, cash and cash equivalents (Note 23) and equity attributable to the parent, comprising share capital, reserves and retained earnings, as disclosed in Notes 28 and 29. The Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

### Financial assets and liabilities

#### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit exposure to credit risk at the reporting date was:

	2010 £'000	2009 £'000
Cash and cash equivalents (Note 23)	3,099	351
Trade and other receivables (excluding prepayments)	12,088	4,848
Loans to ATR (Note 19)	4,308	4,754
	<b>19,495</b>	<b>9,953</b>

The maximum exposure to credit risk for trade and other receivables at the reporting date by source of income was:

	2010 £'000	2009 £'000
HBLB	185	56
Media rights income in relation to LBOs	2,630	1,328
SIS (secured by letter of credit)	7,000	-
ATR	873	459
Loans to ATR	4,308	4,754
Other receivables	1,400	3,005
	<b>16,396</b>	<b>9,602</b>

#### Impairment losses

The ageing of trade receivables (Note 21) at the reporting date was:

	2010 £'000	2009 £'000
Not past due*	8,598	2,079
Past due 0-30 days**	1,765	246
Past due 31-60 days	683	121
More than 60 days	90	144
	<b>11,136</b>	<b>2,590</b>

\* Includes £7.0m due from SIS on 22 July 2011 and secured by letter of credit.

\*\* The balance for 2010 includes £1,335,000 which was paid on 4 January 2011.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2010

### 26 Financial instruments continued

In 2010, the allowance for impairment in respect of trade receivables was £18,000 (2009: £44,000). This allowance is made up of several individually insignificant specific exposures (2009: several individually insignificant specific exposures).

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2010 £'000	2009 £'000
Balance as at 1 January	44	366
Impairment loss recognised	12	44
Amounts written off	(25)	(343)
Amounts received	(13)	(23)
Balance at 31 December	18	44

There are no impairment losses pertaining to the other categories of financial assets.

### Liquidity risk

The following are the contractual maturities (including estimated interest) of financial liabilities:

	Carrying amount £'000	Contractual cash flows £'000	Less than 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
At 31 December 2010						
Secured bank loans (Note 25)	38,987	41,961	11,238	10,803	19,920	–
Other loans (Note 25)	2,913	3,200	1,600	1,600	–	–
Trade and other payables excluding derivatives (Note 22)	4,493	4,493	4,493	–	–	–
Accruals (Note 24)	1,967	1,967	1,967	–	–	–
Derivatives – interest rate hedging agreements (Note 22)	1,328	1,210	605	453	152	–
	49,688	52,831	19,903	12,856	20,072	–
At 31 December 2009						
	Carrying amount Restated* £'000	Contractual cash flows Restated* £'000	Less than 1 year Restated* £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Secured bank loans	39,500	42,034	12,205	1,769	18,514	9,546
Other loans	4,260	4,820	1,620	1,600	1,600	–
Trade and other payables excluding derivatives	4,738	4,738	4,738	–	–	–
Accruals	2,430	2,430	2,430	–	–	–
Derivatives – interest rate hedging agreements	1,454	1,308	458	458	392	–
	52,382	55,330	21,451	3,827	20,506	9,546

\* Relates to a change in the accounting policy for leased assets. See Notes 2 and 15 for further information.

Interest on the secured loans has been estimated using 12-month LIBOR at 31 December 2010 (2009: 12-month LIBOR at 31 December 2009).

The carrying amount of financial derivatives is based on the market valuation as at 31 December provided by LBG. The contractual cash flows of financial derivatives are made by reference to the differential between the nominal rate of the instrument and the forward swap rate over the period of the instrument. For cap instruments, the rate is below the contracted rate and, as a result, no cash flow is projected.

## 26 Financial instruments continued

### Interest rate risk

The currency and interest profile of the Group's financial assets and liabilities are as follows:

	Floating rate liabilities		Interest-free liabilities		Total	
	2010 £'000	2009 £'000	2010 £'000	2009 Restated* £'000	2010 £'000	2009 Restated* £'000
Sterling	(40,315)	(42,828)	(9,373)	(11,988)	(49,688)	(54,816)
	Floating rate assets		Interest-free assets		Total	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Sterling	7,407	4,831	12,088	3,551	19,495	8,382

\* Relates to a change in the accounting policy for leased assets. See Notes 2 and 15 for further information.

The rate at which interest is payable on hedged floating liabilities is 4.77% to 5.27% (2009: 4.76% to 5.50%). The rate at which interest is payable on un-hedged floating liabilities is 2.0% to 3.25% above LIBOR (2009: 1.0% above Bank of Scotland base rate or LIBOR, or 2.5% above LIBOR).

The rate at which interest is receivable on cash balances is 0.25% (2009: 0.25%).

In respect of the floating rate liabilities, a change of 100 basis points in interest rates at the reporting date would result in the following increase/(decrease) in profit and loss:

Cash flow sensitivity floating rate instruments	Change in profit or loss	
	1% increase £'000	1% decrease £'000
At 31 December 2009	(254)	254
At 31 December 2010	(153)	153

The above analysis assumes that all other variables remain constant.

### Fair values

The book value and fair value of financial assets and liabilities are as follows:

	2010		2009	
	Book value £'000	Fair value £'000	Book value Restated* £'000	Fair value Restated* £'000
Trade and other receivables (excluding prepayments)	12,088	12,088	4,848	4,848
Cash and cash equivalents (Note 23)	3,099	3,099	351	351
Loans to ATR (Note 19)	4,308	4,308	4,754	4,754
Derivatives – interest rate hedging agreements (Note 22)	(1,328)	(1,328)	(1,454)	(1,454)
Bank loans (Note 25)	(38,987)	(38,987)	(39,500)	(39,500)
Other loans (Note 25)	(2,913)	(2,913)	(4,260)	(4,260)
Trade and other payables excluding derivatives (Note 22)	(4,493)	(4,493)	(5,296)	(5,296)
Accruals (Note 24)	(1,967)	(1,967)	(2,430)	(2,430)
Bank overdraft (Note 23)	–	–	(1,874)	(1,874)
	(30,193)	(30,193)	(44,861)	(44,861)

\* Relates to a change in the accounting policy for leased assets. See Notes 2 and 15 for further information.

Other loans represent interest-free loans advanced from the HBLB. The balance outstanding on these loans at 31 December 2010 was £3,200,000 (31 December 2009: £4,820,000).

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2010

### 26 Financial instruments continued

#### Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2010	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total liabilities £'000
Derivatives – interest rate hedging agreements (Note 22)	–	(1,328)	–	(1,328)

At 31 December 2009	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total liabilities £'000
Derivatives – interest rate hedging agreements	–	(1,454)	–	(1,454)

The basis for determining fair values is disclosed in Note 4. The fair value of the interest rate hedging agreement was determined by an independent bank valuation.

### 27 Deferred tax assets and liabilities

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2010 £'000	Assets 2009 £'000	Liabilities 2010 £'000	Liabilities 2009 £'000	Net 2010 £'000	Net 2009 £'000
Property	–	–	(13,308)	(12,715)	(13,308)	(12,715)
Plant and equipment	1,832	1,203	–	–	1,832	1,203
Short term temporary differences	219	127	–	–	219	127
Tax losses	11,257	11,385	–	–	11,257	11,385
	13,308	12,715	(13,308)	(12,715)	–	–

The movement in temporary differences during the year is as follows:

	At 31 December 2008 £'000	Recognised in profit or loss £'000	At 31 December 2009 £'000
Property	(12,909)	194	(12,715)
Plant and equipment	566	637	1,203
Short term temporary differences	135	(8)	127
Tax losses	12,208	(823)	11,385
	–	–	–

	At 31 December 2009 £'000	Recognised in profit or loss £'000	At 31 December 2010 £'000
Property	(12,715)	(593)	(13,308)
Plant and equipment	1,203	629	1,832
Short term temporary differences	127	92	219
Tax losses	11,385	(128)	11,257
	–	–	–

## 27 Deferred tax assets and liabilities continued

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	At 31 December 2008 £'000	Movement in the year £'000	At 31 December 2009 £'000
Unrecognised deferred tax assets – tax losses	5,437	1,095	6,532

	At 31 December 2009 £'000	Movement in the year £'000	At 31 December 2010 £'000
Unrecognised deferred tax assets – tax losses	6,532	(411)	6,121

The Group has not provided for the deferred tax assets on the above losses as it is not probable that taxable profits in the short term will be available against which the Group can utilise the associated tax benefits.

The UK Government announced a phased reduction in the main UK corporation tax rate from 28% to 24%, with the first 1% reduction taking effect from 1 April 2011 (and substantively enacted on 20 July 2010). Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on the rates that have been enacted or substantively enacted at the balance sheet date. Therefore, at 31 December 2010, deferred tax assets and liabilities have been calculated based on a rate of 27%, where the temporary difference is expected to reverse after 1 April 2011. The effect of the remeasurement has had no impact on the profit for the year.

No account will be taken of the further 3% reduction in tax rates until substantive enactment of these changes, however it is estimated that this will not have a material impact on the Group.

## 28 Share capital

		2010 £'000		2009 £'000
	Number		Number	
<b>Authorised</b>				
Ordinary shares of 5p each	429,353,724	21,468	429,353,724	21,468
<b>Issued and fully paid</b>				
Ordinary shares of 5p each at beginning and end of the year	364,202,007	18,210	364,202,007	18,210

The Group has also issued share options and awards (Note 32).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2010

### 29 Reserves

	Share premium account £'000	Merger reserve £'000	Retained earnings Restated* £'000	Non- controlling interest Restated* £'000
At 1 January 2009	223	5,417	46,975	1,809
Profit/(loss) for the year	-	-	4,213	(92)
Impact of change in accounting policy*	-	-	2	-
Share-based payment credit	-	-	(28)	-
At 31 December 2009	223	5,417	51,162	1,717
Profit/(loss) for the year	-	-	3,731	(108)
Dividends paid	-	-	(1,384)	-
Share-based payment expense	-	-	320	-
At 31 December 2010	223	5,417	53,829	1,609

\* Relates to a change in the accounting policy for leased assets. See Notes 2 and 15 for further information.

The following describes the nature and purpose of each reserve within shareholders' equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Merger reserve	The merger reserve arose due to the availability of merger relief in connection with the acquisitions of RAM Racing Leisure Ltd (Wolverhampton and Southwell Racecourses) and Royal Windsor Racecourse, partly paid by a share for share exchange, and represents the difference between the fair value of the consideration given for the shares issued and the nominal value of those instruments.
Retained earnings	Cumulative net gains and losses attributable to the equity shareholders of the parent company recognised in the consolidated income statement.
Non-controlling interest	Cumulative net gains and losses attributable to Doncaster Metropolitan Borough Council in respect of their non-controlling interest in The Doncaster Racecourse Management Company Ltd.

### 30 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2010 £'000	2009 Restated* £'000
Less than one year	19	33
Between one and five years	353	55
More than five years	-	-
	372	88

\* Relates to a change in the accounting policy for leased assets. See Notes 2 and 15 for further information.

The payments under operating leases recognised as an expense in the year total £98,000 (2009: £79,000).

### 31 Retirement benefits

The Group operates a defined contribution pension scheme. Pension costs for the defined contribution scheme in 2010 were £170,000 (2009: £175,000). There were £19,000 of unpaid contributions outstanding at the year end (2009: £18,000).

### 32 Share-based payment

The Company operates a long-term incentive scheme and two share option schemes for employees: an HM Revenue & Customs approved share option scheme and an unapproved discretionary share option scheme. Final grants were made under the share option schemes in 2006.

#### Share option schemes

Performance criteria based upon the future market price of the Company's shares or growth in adjusted earnings per share are attached to each grant of options which must be met prior to exercise. In normal circumstances, employees will forfeit rights over share options six months after leaving the Company's employment, although Directors have discretionary power to extend this to one year following cessation of employment or three and a half years from the date of grant.

	2010		2009	
	Weighted average exercise price	Number	Weighted average exercise price	Number
Outstanding at beginning of year	50.66p	4,581,873	48.71p	5,551,546
Lapsed during the year	62.00p	(100,000)	39.50p	(912,711)
Forfeited during the year	105.00p	(17,500)	-	-
Forfeited during the year	39.50p	(161,630)	39.50p	(56,962)
Outstanding at the end of the year	50.60p	4,302,743	50.66p	4,581,873

The exercise price of options outstanding at the end of the year ranged between 39.5p and 105p (2009: 39.5p and 105p) and their remaining weighted average contractual life was 4.66 years (2009: 5.57 years). These shares have been sub-divided as follows:

	2010		2009	
	Remaining contractual life	Number	Remaining contractual life	Number
Option price – 39.50p	5.80 years	2,592,743	6.80 years	2,754,373
Option price – 40.75p	4.75 years	1,000,000	5.75 years	1,000,000
Option price – 62.00p	-	-	0.08 years	100,000
Option price – 105.0p	0.40 years	710,000	1.40 years	727,500
Total	4.66 years	4,302,743	5.57 years	4,581,873

Of the total number of options outstanding at the end of the year, 3,592,743 (2009: 3,854,373) had vested and were exercisable at the end of the year. There were no options exercised in 2010 (2009: none).

The following information is relevant in the determination of the fair value of options granted under the equity-settled share-based remuneration schemes operated by the Group:

	2006
Equity-settled	
Option pricing model used	Black-Scholes
Share price at grant date	39.50p
Exercise price	39.50p
Estimated period to exercise of options	5 years
Expected volatility	16%
Risk-free interest rate	4.75%

The final grants under the share option schemes were in October 2006. The weighted average fair value of each option granted in 2006 was 9.17p. The valuation performed at the grant date used a volatility assumption based on statistical analysis of daily share prices over a period of 90 days. A period of 90 days was deemed by the Board to be a more appropriate basis for analysis than a three-year period owing to the distorting effect of the Group's former technology-based subsidiary and the original *attheraces* business model. The average share price over the three-year period to 31 December 2006 was therefore not representative of the Group's business model going forward.

## Notes Forming Part of the Financial Statements continued

for the year ended 31 December 2010

### 32 Share-based payment continued

#### Long-term incentive scheme

In April 2007, shareholder approval was obtained for a long-term incentive plan ('LTIP'). The LTIP provides for annual conditional awards of shares to be made, subject to performance criteria. The first awards under the scheme were made in 2007 and are subject to absolute adjusted EPS growth targets over a three-year period. Further awards were made in 2009 and 2010 and are subject to relative adjusted EPS growth targets over a three-year period (see page 35 of the Remuneration Report for the specific criteria attached to the awards). In certain circumstances of cessation of employment (e.g. death, injury or disability, retirement, redundancy, employment being with a company which ceases to be a Group member or for other reasons as the Remuneration Committee so decides), an employee will be considered a good leaver and the shares will vest on either the date of departure or the normal vesting date, subject, in both circumstances, to a pro-rata reduction for the time served; such reduction can be waived at the discretion of the Remuneration Committee. In any other circumstance, the awards will lapse immediately upon the employee leaving the Company's employment.

	2010		2009	
	Weighted average grant price	Number	Weighted average grant price	Number
Outstanding at beginning of year	32.50p	5,447,127	54.48p	3,065,786
Awarded during the year	34.95p	2,944,942	26.55p	3,642,018
Lapsed or forfeited during the year	43.05p	(1,964,527)	68.75p	(1,260,677)
Outstanding at the end of the year	30.40p	6,427,542	32.50p	5,447,127

Of the total number of LTIP shares outstanding at the end of the year, none had vested at the end of the year (2009: none).

The weighted average fair value of each share awarded during the year was 34.95p (2009: 26.55p).

The volatility assumption is based on management's assessment of the amount of shares that will vest.

The share-based remuneration expense (Note 8) comprises:

	2010 £'000	2009 £'000
<b>Equity-settled schemes</b>		
Share options granted in 2005	–	37
Share options granted in 2006	–	137
LTIP shares awarded in 2007	–	(58)
LTIP shares awarded in 2008	–	(170)
LTIP shares awarded in 2009	199	26
LTIP shares awarded in 2010	121	–
	320	(28)

At 31 December 2010 the Directors reviewed the probability of the LTIP scheme criteria being met at the vesting dates, and a reduction in the cumulative expense in relation to the 2009 LTIP shares has been made to reflect current expectations.

The cumulative entries in respect of the share options granted in 2005 and 2006 and the LTIP shares awarded in 2007 and 2008 reflect the actual numbers of instruments which vested.

### 33 Related party transactions

Details of Directors' and key management remuneration are given in the Remuneration Report on pages 31 to 36 and Note 9.

Mark Elliott and Ian Renton are Directors of the Group's joint venture, ATR. Ian Renton was a Director of the British Horseracing Authority, racing's governing and regulatory body, until his term expired in July 2010. Mark Elliott is a Director of the Racecourse Association, the trade association of the UK's racecourses.

Transactions with these related parties are as follows:

Related party	Type of transaction	Transaction amount		Balance due to/(from) Arena	
		2010 £'000	2009 £'000	2010 £'000	2009 £'000
Racecourse Association	Annual membership fee and related costs	(153)	(181)	(4)	(41)
	Admissions and conference facilities	12	36	3	9
British Horseracing Authority	Programme announcements and racing calendar adverts	–	(238)	–	–
	Sponsorship, admissions, Ian Renton				
	Directorship	29	–	4	–
At The Races	Contribution to picture provision	2,622	1,717	373	242
	Interest receivable on loans	69	89	–	–
	Loans (Note 19)	(515)	(300)	4,308	4,754

The Group has not made any provision for bad or doubtful debts in respect of related-party debtors nor has any guarantee been given or received during 2010 or 2009 regarding related party transactions.

All transactions with these related parties have been undertaken on a commercial arm's-length basis.

### 34 Capital commitments

At 31 December 2010, the Group remained committed to purchase property, plant and equipment totalling £282,000 (2009: £409,000), of which £nil (2009: £nil) is as a result of the Group's investment in At The Races.

Arena's share of the capital commitments of At The Races amounted to £nil (2009: £nil).

### 35 Contingent liabilities

Wolverhampton Racecourse has guaranteed an amount of \$50,000 (2009: \$50,000) to the benefit of Holiday Inns Incorporated in relation to the hotel franchise.

Arena Leisure Plc, as part of its shareholders' agreement, has a commitment to fund ATR by way of loans up to an amount not exceeding £5,000,000, of which £4,308,000 has been provided by way of loans at 31 December 2010 (2009: £4,754,000).

Arena's share of the contingent liabilities of At The Races amounted to £nil (2009: £nil).

### 36 Events after the reporting date

On 10 February 2011, Arena was awarded the contract to provide catering services at both the Eton Dorney and the Greenwich Park venues as part of the Olympic and Paralympic Games in 2012. The contract contains elements of both fixed income and variable income that is dependent upon the numbers of attendees and spend per head. The Board currently estimates that Arena's 2012 net profit contribution from the contract will be in the range of £0.5m to £1.0m.

## Company Balance Sheet – UK GAAP Financial Statements

at 31 December 2010

	Note	2010 £'000	2009 £'000
<b>Fixed assets</b>			
Intangible assets	4	476	439
Tangible assets	3	85	99
Investments	5	76,110	76,054
		<b>76,671</b>	<b>76,592</b>
<b>Current assets</b>			
Debtors			
– Due within one year	7	7,201	349
– Due in more than one year	7	178,286	140,376
		<b>185,487</b>	<b>140,725</b>
Cash at bank and in hand		286	–
		<b>185,773</b>	<b>140,725</b>
Creditors: amounts falling due within one year	8	(15,020)	(15,838)
<b>Net current assets</b>		<b>170,753</b>	<b>124,887</b>
<b>Total assets less current liabilities</b>		<b>247,424</b>	<b>201,479</b>
Creditors: amounts falling due after one year	8	(61,158)	(18,000)
<b>Net assets</b>		<b>186,266</b>	<b>183,479</b>
Called up share capital	9	18,210	18,210
Share premium	10	223	223
Other reserve	10	80	24
Merger reserve	10	5,417	5,417
Profit and loss account	10	162,336	159,605
<b>Shareholders' funds</b>		<b>186,266</b>	<b>183,479</b>

Company number: 857819.

The notes on pages 73 to 78 form part of these financial statements.

These financial statements were approved by the Board of Directors on 7 March 2011 and signed on its behalf by:

**Mark Elliott**  
Chief Executive

**Tony Harris**  
Finance Director

# Notes Forming Part of the UK GAAP Financial Statements

for the year ended 31 December 2010

## 1 Accounting policies

The financial statements of the Company have been prepared under UK GAAP using the historical cost convention and are in accordance with applicable accounting standards and the Companies Act 2006.

The following principal accounting policies have been applied on a basis consistent with the International Financial Reporting Standards ('IFRS') financial statements and are explained in Note 3 to the IFRS financial statements:

- Depreciation;
- Dividends; and
- Pension costs.

The following accounting policies differ from the IFRS accounting policies:

### Financial assets and liabilities

All financial assets and liabilities are accounted for consistently with the IFRS financial statements with the exception of investments in subsidiaries which are held at cost less provisions for impairment.

### Investments in joint ventures

Investments in joint ventures are stated at cost less provisions for impairment.

### Deferred tax

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. In accordance with FRS 19, deferred tax is provided in respect of all timing differences that have originated, but not reversed, at the balance sheet date that may give rise to an obligation to pay more or less tax in the future. The recognition of deferred tax assets is limited to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the reversal of underlying timing differences. Deferred tax is measured on a non-discounted basis.

## Share-based payment

Where share options are awarded to employees, the fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiary's financial statements with the corresponding credit being recognised directly in equity.

## Financial guarantees

Where the Company enters into financial guarantee contracts and guarantees the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time that it becomes probable that the Company will be required to make a payment under the guarantee.

## Cash flow statement

The Company is exempt from the requirement to prepare a cash flow statement on the grounds that the Company is included in its own published consolidated financial statements.

## 2 Result for the period

The Company has taken advantage of the exemption allowed under Section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements.

Profit after tax for the Company was £3,851,000 for the period (2009: £1,042,000).

### 3 Tangible fixed assets

	Fixtures, fittings and vehicles £'000
Cost	
At 1 January 2010	211
Additions	6
Disposals	(1)
At 31 December 2010	216
Depreciation	
At 1 January 2010	(112)
Charged in the year	(19)
At 31 December 2010	(131)
Net book value at 31 December 2010	85
Net book value at 31 December 2009	99

### 4 Intangible fixed assets

	£'000
At 1 January 2010	439
Additions	37
At 31 December 2010	476

Additions to intangible assets represent costs incurred during the year in relation to the new media rights agreement, as detailed in Note 17 to the IFRS financial statements. The costs will be amortised on a straight-line basis over the five-year term of the agreement, which commences on 1 January 2012.

### 5 Investments

	Joint venture £'000	Subsidiaries £'000	Total £'000
Cost at 1 January 2010	2,231	74,621	76,852
Capital contribution	–	56	56
Cost at 31 December 2010	2,231	74,677	76,908
Provisions at 1 January and 31 December 2010	–	(798)	(798)
Net book value at 31 December 2010	2,231	73,879	76,110
Net book value at 1 January 2010	2,231	73,823	76,054

The principal investments of Arena Leisure Plc are detailed in Note 18 to the IFRS financial statements.

Disclosure in respect of the Company's funding obligation to At The Races is detailed in Note 19 to the IFRS financial statements.

The capital contribution recognised in the year relates to grants of LTIP conditional shares made in November 2009 and August 2010 to employees of subsidiary companies (Note 9).

## 6 Staff numbers and costs

The average number of persons employed by the Company (including Directors) during the period was as follows:

	2010	2009
Racing – Management and operations	1	1
Head Office – Management and administration	9	10
	10	11

	2010 £'000	2009 £'000
<b>Staff costs (including Directors)</b>		
Wages and salaries	1,391	1,388
Defined contribution pension cost	76	76
Employer's national insurance and similar taxes	164	170
Share-based payment expense	264	–
	1,895	1,634

There were £9,000 of unpaid pension contributions outstanding at the year end (2009: £9,000).

## 7 Debtors

	2010 £'000	2009 £'000
<b>Amounts falling due within one year</b>		
Trade debtors	7,039	38
Other debtors	61	127
Prepayments and accrued income	101	184
	7,201	349
<b>Amounts due after one year</b>		
Amounts owed by subsidiary undertakings	173,978	135,622
Loans to joint venture	4,308	4,754
	178,286	140,376

Interest is charged on amounts owed by subsidiary undertakings at LIBOR plus a 2.0% to 3.5% margin. Interest is charged on loans to joint venture at LIBOR plus a 1.0% margin.

## Notes Forming Part of the UK GAAP Financial Statements continued

for the year ended 31 December 2010

### 8 Creditors

	2010 £'000	2009 £'000
<b>Amounts falling due within one year</b>		
Bank overdraft	–	(2,625)
Bank loans (secured)	(9,829)	(11,500)
Trade creditors	(614)	(709)
Amounts due to subsidiary undertakings	(3,948)	(21)
Other taxation and social security	(136)	(187)
Other creditors	(9)	(156)
Accruals and deferred income	(484)	(640)
	<b>(15,020)</b>	<b>(15,838)</b>
<b>Amounts due after one year</b>		
Deferred income	(32,000)	(12,500)
Bank loans (secured)	(29,158)	(5,500)
	<b>(61,158)</b>	<b>(18,000)</b>

The bank loans are secured by a fixed and floating charge on the assets and undertakings of Group companies and a first legal charge on all freehold and leasehold properties owned by the Group. This security is subject to deeds of priority and permitted charges in favour of the HBLB in respect of security for interest-free loans provided to the Group, with the exception of Southwell Racecourse which, until 31 December 2011, is subject to deeds of priority and permitted charges in favour of SIS in respect of security for the advanced payments relating to the new media rights agreement commencing on 1 January 2012.

Bank loan terms of repayment and interest rates applicable are disclosed in Note 25 to the IFRS financial statements.

Included within deferred income is a £12,500,000 advanced payment received from SIS in July 2009, upon signing a new agreement for the provision of horse racing content from Arena's racecourses into LBOs in the United Kingdom and Ireland, and two other amounts relating to the same agreement: a further £12,500,000 advanced payment received from SIS in July 2010 under the terms of the same agreement and £7,000,000 due for payment in July 2011 which has been invoiced and is included within trade debtors. The income deferred will be recognised in profit or loss on a straight-line basis over the five-year term of the agreement, which commences on 1 January 2012, and is classed as due after one year.

### 9 Called up share capital

	2010 £'000	2009 £'000
<b>Authorised</b>		
429,353,724 ordinary shares of 5p each (2009: 429,353,724)	<b>21,468</b>	<b>21,468</b>
<b>Allotted, called up and fully paid</b>		
364,202,007 ordinary shares of 5p each (2009: 364,202,007)	<b>18,210</b>	<b>18,210</b>

## 9 Called up share capital continued

Total share options in issue at 31 December 2010 were as follows:

	Number of ordinary shares	Exercise price	Period exercisable
(i) Under the Share Option Plan	230,355	105.00p	25 May 2004 – 24 May 2011
	73,619	40.75p	3 October 2008 – 2 October 2015
	307,096	39.50p	3 October 2009 – 2 October 2016
	(17,500)	105.00p	Forfeited in the period
	(57,046)	39.50p	Forfeited in the period
	536,524		
(ii) Under the Discretionary Share Option Scheme	100,000	62.00p	25 January 2003 – 24 January 2010
	497,145	105.00p	25 May 2004 – 24 May 2011
	926,381	40.75p	3 October 2008 – 2 October 2015
	2,447,277	39.50p	3 October 2009 – 2 October 2016
	(100,000)	62.00p	Lapsed in the period
	(104,584)	39.50p	Forfeited in the period
	3,766,219		
<b>Total</b>	<b>4,302,743</b>		

Total shares awarded through the LTIP as at 31 December 2010 were as follows:

	Number of ordinary shares	Grant price	Vesting date
Under the LTIP	1,466,126	45.25p	10 April 2011
	338,983	41.30p	8 May 2011
	3,642,018	26.55p	2013 – see below
	2,944,942	34.95p	2013 – see below
	(1,466,126)	45.25p	Lapsed in the period
	(338,983)	41.30p	Lapsed in the period
	(159,418)	26.55p	Forfeited in the period
<b>Total</b>	<b>6,427,542</b>		

On 9 August 2010, the Company granted 2,944,942 conditional shares through the LTIP scheme to Directors and certain employees of the Company and its subsidiaries. Vesting of the shares will take place following the issue of the annual results for the year to 31 December 2012, subject to the Group achieving adjusted earnings per share ('EPS') growth of Retail Price Index ('RPI')+90% over the performance period, which ends on 31 December 2012, using 2009 as the base year. The vesting percentage reduces to 50% if EPS growth is RPI+60% and 0% if EPS growth is less than RPI+30%. Straight-line vesting occurs between 0% and 50% and between 50% and 100%.

On 20 November 2009, the Company granted 3,642,018 conditional shares through the LTIP scheme to Directors and certain employees of the Company and its subsidiaries. Vesting of the shares will take place following the issue of the annual results for the year to 31 December 2012, subject to the Group achieving adjusted EPS growth of RPI+40% over the performance period, which ends on 31 December 2012, using 2008 as the base year. The vesting percentage reduces to 25% if EPS growth is RPI+16%, with straight-line vesting occurring between 25% and 100%, and the percentage reduces to 0% if EPS growth is less than RPI+16%.

The LTIP awards granted on 10 April 2008 and 8 May 2008, which were due to vest on 10 April 2011 and 8 May 2011, respectively, have lapsed due to the performance criteria not having being met.

Details of Directors' share options and LTIP share awards included above are disclosed in the Remuneration Report on pages 31 to 36.

## Notes Forming Part of the UK GAAP Financial Statements continued

for the year ended 31 December 2010

### 10 Reserves

	Share premium account £'000	Other reserve £'000	Merger reserve £'000	Profit and loss account £'000
At 1 January 2009	223	35	5,417	158,563
Profit for the year	-	-	-	1,042
Share-based payment credit	-	(11)	-	-
At 31 December 2009	223	24	5,417	159,605
	Share premium account £'000	Other reserve £'000	Merger reserve £'000	Profit and loss account £'000
At 1 January 2010	223	24	5,417	159,605
Profit for the year	-	-	-	3,851
Dividends paid	-	-	-	(1,384)
Share-based payment expense	-	56	-	264
At 31 December 2010	223	80	5,417	162,336

The other reserve has arisen in respect of the share-based payment expense attributable to employees of subsidiaries. Descriptions of the other reserves are included in Note 29 to the IFRS financial statements.

Details of the dividend proposed in relation to 2010 has been disclosed in Note 14 to the IFRS financial statements.

### 11 Reconciliation of movement in shareholders' funds

	2009 £'000
Profit for the year	1,042
Share-based payment credit	(11)
Opening shareholders' funds	182,448
Closing shareholders' funds	183,479
	2010 £'000
Profit for the year	3,851
Dividends (Note 14 – IFRS financial statements)	(1,384)
Share-based payment expense	320
Opening shareholders' funds	183,479
Closing shareholders' funds	186,266

### 12 Share-based payment

The Company operates a long-term incentive scheme and two share option schemes for employees: an HM Revenue & Customs approved share option scheme and an unapproved discretionary share option scheme. Details are disclosed in Note 32 to the IFRS financial statements.

### 13 Capital commitments, contingent liabilities and subsequent events

Disclosure in respect of capital commitments, contingent liabilities and events subsequent to the balance sheet date are given in Notes 34, 35 and 36 to the IFRS financial statements, respectively.

### 14 Related party transactions

Disclosure in respect of related party transactions is given in Note 33 to the IFRS financial statements.

The Doncaster Racecourse Management Company Ltd ('DRMC') and Worcester Racecourse Ltd ('Worcester') are 81% subsidiaries of the Company. During the year, the Company charged DRMC £997,000 (2009: £482,000) and Worcester £298,000 (2009: £138,000) in relation to management services and Group interest. The balances due to the Company at 31 December 2010 were £26,257,000 in respect of DRMC (2009: £7,658,000) and £5,073,000 (2009: £1,096,000) in respect of Worcester.

## Five Year Record

	Year to 31 December 2010 £'000	Year to 31 December 2009 Restated** £'000	Year to 31 December 2008 £'000	Year to 31 December 2007 £'000	Year to 31 December 2006 £'000
Revenue*	63,983	65,239	64,825	57,920	45,259
Profit from operations*	4,062	4,389	5,467	5,897	6,195
Tangible fixed assets	140,685	135,646	119,734	108,283	86,054
Net assets	79,288	76,729	72,644	70,411	64,272

\*Adjusted as follows:

2006 – Excludes release of unclaimed share proceeds on purchase of subsidiary undertaking.

2007 – Excludes impairment loss in respect of Royal Windsor Racecourse.

2008 – Excludes gains on sale of assets.

2009 – Excludes gains on sale of assets.

2010 – No adjustments.

\*\* Relates to a change in the accounting policy for leased assets.

## Analysis of Shareholders

Number of shareholders: 6,960 as at 4 March 2011.

	Shareholders %	Shares %
1,000 and under	61.0	0.3
1,001 to 5,000	25.7	1.2
5,001 to 10,000	6.0	0.9
10,001 to 100,000	5.8	3.6
Over 100,000	1.5	94.0
	100.0%	100.0%
<b>Held by</b>		
Banks	0.1	3.9
Nominee companies	5.2	48.1
Other corporate bodies	0.9	43.0
Individuals	93.8	5.0
	100.0%	100.0%

## Company Information

### Head and registered office

408 Strand  
London WC2R 0NE  
Telephone +44 (0)20 7632 2080  
Facsimile +44 (0)20 7240 8032  
[contact@arenaleisureplc.com](mailto:contact@arenaleisureplc.com)  
[www.arenaleisureplc.com](http://www.arenaleisureplc.com)

### Company secretary

Robert Mercer FCMA

### Registered number

857819

### Auditors

KPMG Audit Plc  
15 Canada Square  
London E14 5GL

### Solicitors

K&L Gates LLP  
110 Cannon Street  
London EC4N 6AR

### Principal bankers

Lloyds Banking Group Plc  
25 Gresham Street  
London EC2V 7HN

### Stockbrokers

Altium Capital Limited  
30 St James's Square  
London SW1Y 4AL

### Financial advisors

Investec Bank (UK) Limited  
2 Gresham Street  
London EC2V 7QP

### Registrar and transfer office

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

**Designed and produced by Merchant**  
[www.merchant.co.uk](http://www.merchant.co.uk)

Printed by The Colourhouse

This Report has been printed on Cocoon Silk 100, an FSC Recycled certified product, which is produced using 100% post-consumer waste at a mill that has achieved ISO 9001, ISO 14001 and NAPM. The pulp is bleached using a chlorine free process (PCF).



**Recycled**  
Supporting responsible use  
of forest resources  
[www.fsc.org](http://www.fsc.org) Cert no. SGS-COC-2524  
© 1996 Forest Stewardship Council



---

**Arena Leisure Plc**

408 Strand

London WC2R 0NE

Telephone +44(0) 20 7632 2080

Facsimile +44(0) 20 7240 8032

**[www.arenaleisureplc.com](http://www.arenaleisureplc.com)**