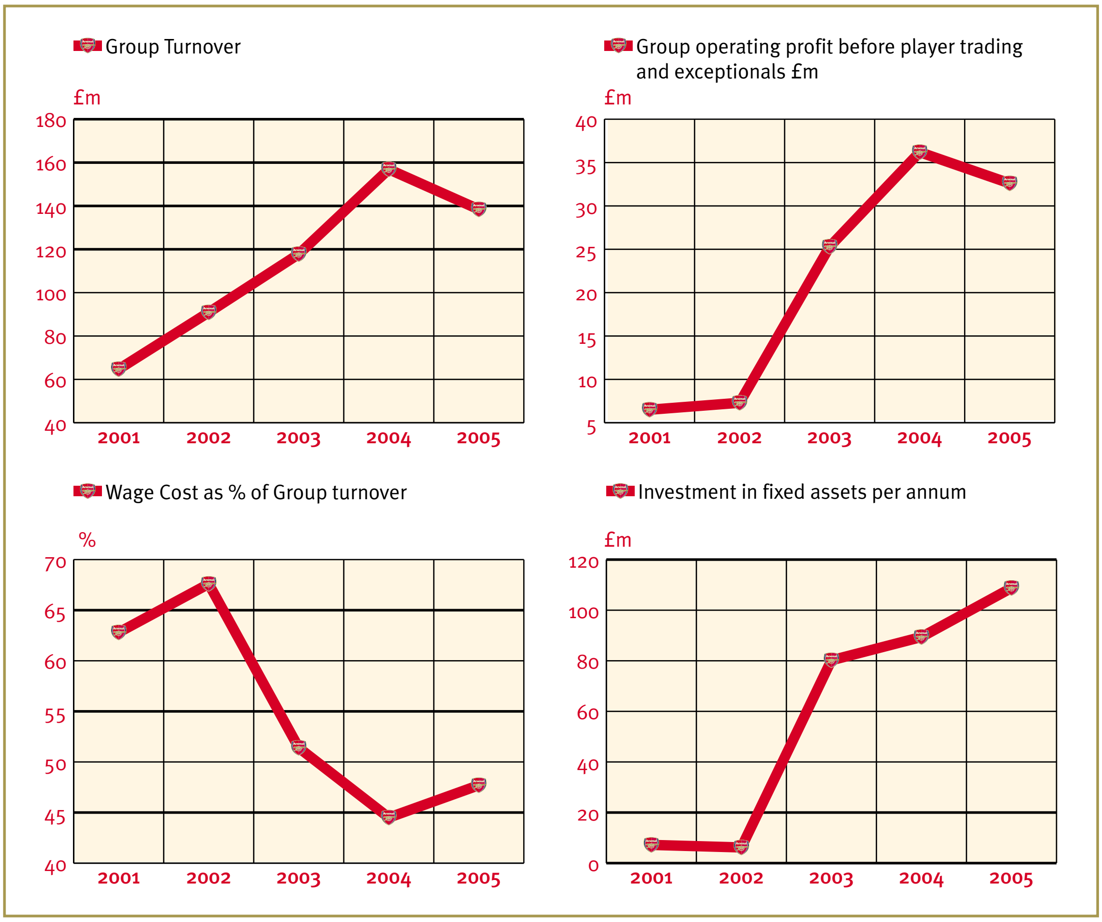

Arsenal
TheFA CUP

CONTENTS

FINANCIAL HIGHLIGHTS

	2005	2004
Group turnover £m	**138.4**	156.9
Group operating profit before player trading and exceptional costs £m	**32.6**	36.2
Profit before taxation £m	**19.3**	10.6
Earnings per share £	**138.91**	138.29



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CHAIRMAN'S REPORT

It is my great pleasure to begin this year's report with a review of what has been another successful year, both on and off the pitch, for the Arsenal Group.

On the pitch, the team won the FA Cup by virtue of a penalty shoot-out victory over Manchester United. This was the third time in the last four years and the tenth time in its history that the Club has won the FA Cup.

The team's outstanding accomplishment in the 2003/04 season of completing the whole Premiership programme of 38 matches without a single defeat was added to by an excellent start to the 2004/05 season, where a new unbeaten league record of 49 matches was established when the team beat Aston Villa 3-1 at Highbury in October. This tremendous achievement was recognised by the Premier League with the presentation to the Club of a special trophy celebrating this record. After a season of many high class performances, the Club finally finished second in the Barclays Premiership, thus qualifying automatically for the Group Stage of the UEFA Champions League 2005/06.

In each of his eight full seasons at the Club, Arsène Wenger has led the team to a top two league finish and in this time the Club has won seven major domestic honours. This represents a remarkable achievement of ongoing consistency for which Arsène, the players and all the back-room staff deserve congratulations. We were naturally delighted to announce last autumn that Arsène had extended his contract with Arsenal through to May 2008.

Off the pitch, I am pleased to report that the Club's new home from the start of the 2006/07 season – Emirates Stadium – is on course for its scheduled completion date of August 2006. During the year, the project team, led from within the Club by Danny Fiszman, Keith Edelman and Ken Friar, has continued to drive the project forward. It has been extremely exciting to witness the rapid progress of the construction of Emirates Stadium and speaking on behalf of the entire Board of Directors and everyone associated with the Club, we are all looking forward to this new chapter in the history of Arsenal Football Club. Page 14 of this report further details the progress made in the construction of Emirates Stadium.

It is, of course, with a heavy heart that the Club will be leaving Highbury, Arsenal's home since 1913, but the move to Emirates Stadium will enable the Club to grow and reach out to thousands of new fans who cannot currently watch matches at Highbury.

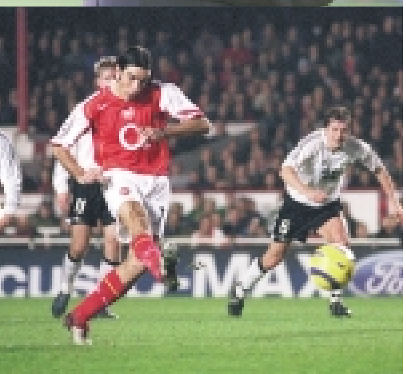
To celebrate the history of Highbury, the team will be playing in a commemorative kit for the 2005/06 season. The kit's shirt is 'redcurrant' and is the same colour which the Club wore during the first season at Highbury in 1913. Also, throughout the last season at Highbury, the Club will be staging many special activities on match days to celebrate the many great players and moments that this fantastic stadium has witnessed.

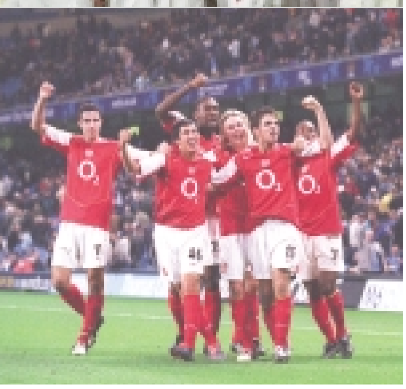
Turning to the Group's financial results I am pleased to report that, despite a lower level of activity in our property development business, the Group has delivered another strong set of results with an increase in pre-tax profits to £19.3 million (2004 - £10.6 million). We have continued to invest significant sums in the Emirates Stadium development funded from the bank facilities we put in place at the start of 2004. Our strategy of keeping the financing of the stadium project separate from the funding of the football club has allowed the Club to finish the year with available cash reserves of more than £63 million. The Group's results for the year are considered in more detail in the Financial Review section of my report.

On the field

Although the Club was unable to defend the Premiership title, the 2004/05 season still







CHAIRMAN'S REPORT

offered us much to celebrate. In addition to adding another FA Cup to the Highbury collection, the team set a record for the most consecutive unbeaten games in league history and successfully qualified for the UEFA Champions League for the eighth consecutive season.

A particularly pleasing aspect to the season was the further integration of young players into the first team squad. The development of players such as Jeremie Aliadiere, Gael Clichy, Emmanuel Eboue, Francesc Fabregas, Mathieu Flamini, Justin Hoyte, Quincy Owusu-Abeyie, Jose Antonio Reyes, Philippe Senderos and Robin van Persie complemented the team's exciting style of football and these young players will continue to be an asset to the Club for many years to come.

In the UEFA Champions League, the team reached the First Knockout Round, after finishing top of its qualification group without losing a game. However, a 3-2 aggregate loss against German champions Bayern Munich led, disappointingly, to the Club's departure from the competition in March.

Despite this European set-back, Arsenal prevailed in the oldest cup competition in the world, by beating Manchester United in the FA Cup, in what was the final's first ever penalty shoot-out. Arsène Wenger and his team have participated in four of the five finals held at Cardiff's Millennium Stadium, winning three of them – a tremendous achievement.

Once again, the Club sent out a young team in the Carling Cup, giving our young prospects invaluable experience. The team made good progress in the competition reaching the Fifth Round, with victories over Premiership opponents - Everton and Manchester City - in the earlier rounds.

There were many notable records and individual achievements throughout the season, including the Club recording its highest ever Premiership win and Thierry Henry winning the Premiership Golden Boot and European Golden Shoe Award. These achievements are fully detailed on page 16 of this report.

Our Ladies Team had another successful year, achieving a league and League Cup double. During the summer, four players from the Arsenal Ladies represented England in Euro 2005, the UEFA Women's Football Championships, with Faye White (Captain of both England and Arsenal), Mary Phillip, Kelly Smith and Anita Asante all being part of the England squad.

A full season review for Arsenal's First Team, Reserves, Youth and Ladies can be found on pages 15 to 19 of this report.

Player Transfers

During the close season, Belarus international midfielder, Alexander Hleb has joined Arsenal from Vfb Stuttgart for a fee which could rise, subject to various appearance and performance criteria, to €15 million.

The close season also saw the departure of Patrick Vieira, who moved to Juventus for a fee of €20 million. Patrick was a magnificent servant to the Club, making 406 first team appearances since his arrival from AC Milan in 1996. He became Club captain in 2002 and won three Premier League titles and four FA Cups in his time at Arsenal. We would like to thank Patrick for the role he played in Arsenal's success and to wish him the very best of luck for his future.

Other first team players to have left the Club over the course of the year and subsequently include Jermaine Pennant, Stuart Taylor and Edu. We wish all of these players well and thank them for their contribution.

FA Premier League Fair Play Award

Arsenal's excellent recent disciplinary record and

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attractive style of football was rewarded by the Club's second consecutive first place ranking at the top of the Premier League Fair Play table. The fans also deserve a special mention for their top six finish in the Supporters' Fair Play table. As always, our fans' behaviour has been impeccable and their support for both home and away games is commendable.

The Big Tick

In June 2005, the Club was very proud to be presented with Business in the Community's Big Tick award for its investment in education through the Arsenal Double Club, which links the popularity of football with stimulating educational materials for use in primary and secondary schools in London and surrounding counties.

The Big Tick acknowledges a high standard of excellence in the organisation and integration of responsible business practices and their positive impact on society.

Commercial Partners

I would like to express our thanks for the support and commitment from all our commercial partners over the course of the season. We are proud to have announced our new association with Emirates Airline which we believe will be a long and fruitful partnership for both companies. We also look forward to continuing to build on our strong relationships with Nike and O2, as well as Budweiser, Samsung Mobile, Lucozade Sport, Lanson, JVC, Thomas Cook and our other partners for both the last season at Highbury and the new era at Emirates Stadium.

Charity of the Season

Due to the outstanding success of the first year of our Charity of the Season initiative, the Club decided to continue its relationship with ChildLine for a second year, raising nearly £200,000 for the charity over the two years.

Once again, throughout the season many events were organised to raise awareness and funds for ChildLine, culminating in Arsenal's Inaugural Charity Ball in July 2005, which was a fitting way to say farewell to ChildLine and welcome our new Charity of the Season for 2005/06, an initiative in memory of Arsenal legend, David Rocastle.

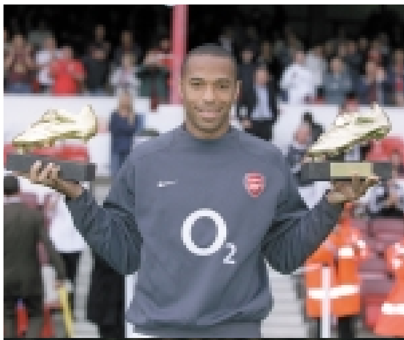
Page 20 of this report provides further details about the Club's partnership with ChildLine.

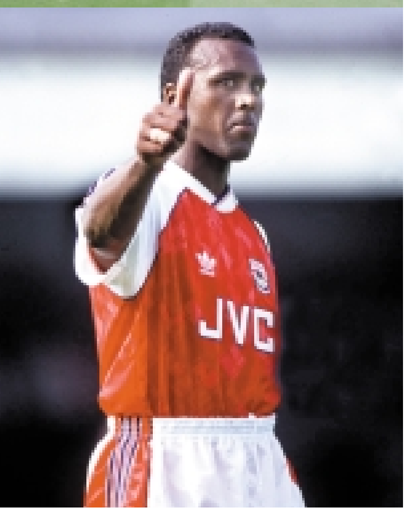
Financial Review

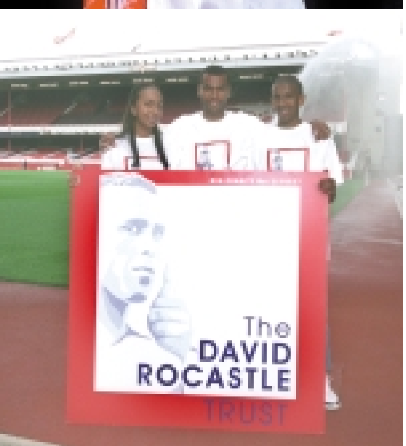
I am pleased to report that, despite a lower level of activity in our property development business this year, the Group's operating profits, before player trading costs of £15.0 million, were £32.6 million (2004 - £36.2 million). This fact, coupled with a reduction in the overall loss on player trading - which was £12.1 million (2004 – loss of £23.6m), means that the Group has increased its pre-tax profits from last year's £10.6 million to £19.3 million for the current year.

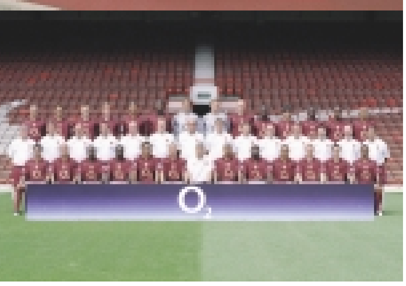
The contribution to the Group results of our two business segments – football and property development – was as follows:

	2005 £m	2004 £m
Football		
Turnover	115.1	115.1
Operating profit before player trading and exceptional costs	20.2	20.1
Property development		
Turnover	23.3	41.8
Operating profit before exceptional costs	12.4	16.1
Group		
Turnover	138.4	156.9
Operating profit before player trading and exceptional costs	32.6	36.2







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In last year's annual report I anticipated the sale of three property development sites in 2004/05. Two of these sales were completed in the year but completion of the sale of the third site, at Drayton Park, is now expected to occur this autumn. We have the sale of one more major development site, at Queensland Road, and a number of smaller sites to progress over the next year. In addition, with the move to Emirates Stadium getting closer, we will be moving forward rapidly with our plans for the sale/development of Highbury, for which our updated proposals received detailed planning consent at the end of June.

We have continued to invest significant amounts in the Emirates Stadium construction programme with an outlay of some £98 million on capital expenditure in the year. This investment has been financed using the fixed rate bank loan facilities the Group has in place to fund the stadium development, together with our own scheduled contributions. The financing strategy is designed to maximise the operational flexibility of the football business and the success of this strategy is evidenced by cash reserves of more than £63 million available to Arsenal Football Club at the balance sheet date.

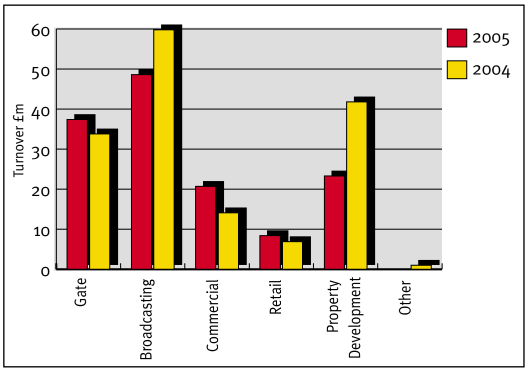
These cash reserves reflect the injection by Granada Media Group of £30 million, in accordance with the conditional subscription arrangement entered into at the time of Granada's original investment in the Group, which increased Granada's shareholding to 9.99%.

Cash reserves also benefit from the first instalment of funds from the sponsorship transaction we concluded with Emirates last autumn. This partnership gives Emirates exclusive rights as the naming sponsor of our new stadium to 2021 and includes an eight year shirt sponsorship which commences at the end of the Club's current shirt sponsorship deal with O2 at the end of the 2005/06 season. The Emirates sponsorship fees of £90 million will significantly enhance the Group's commercial revenues over the contract term, although the amount included in the current year's profits is minimal.

We also completed a further key contract in March 2005 when we announced Delaware North would be our exclusive provider of catering services at Emirates Stadium. In return for these catering rights Delaware North will make phased contributions totalling £15 million towards the capital costs of catering equipment and the fit out of the catering facilities within Emirates Stadium and pay to Arsenal a catering rights fee, based on an agreed percentage (up to a maximum of 21%) of its total catering revenues at Emirates Stadium, for each year of the contract's 20 year term. Delaware North will also be running the catering operations at Highbury for season 2005/06 on a fixed management fee basis and we are already working closely with their team.

INCOME

Group turnover for the year was £138.4 million.



Broadcasting revenues of £48.6 million (2004 - £59.8 million), representing 35% of Group turnover (2004 – 38%), have fallen for two reasons. Firstly, a fall in domestic TV revenues which we anticipated in last year's annual report. The new FA Premier League TV deals have a similar total return to the previous contracts but with a flat allocation to each

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season of the three year term instead of the previous stepped allocation. Our exact share of these TV revenues continues to be determined by our final league position and levels of live coverage: 23 live or pay-per-view matches (2004 – 19 live or pay-per-view). Secondly, a lower level of Champions League pool and performance revenues amounting to £15.9 million (2004 - £19.3 million), as a consequence of our exit from the competition at the first knock-out phase (2004 – quarter final) and also impacted by the overall performance of the other English clubs in the competition.

Total turnover from our football business has been maintained at the same level as last year with the fall in broadcasting revenues compensated by increases across each of the other categories of football business turnover.

Gate receipts of £37.4 million (2004 - £33.8 million) represented 27% of Group turnover (2004 – 21.5%) from 27 first team matches at Highbury. This is two less matches than last year with the decrease relating to the number of home Carling Cup ties. The mix of matches was also varied by there being one more FA Cup game against one less Champions League match.

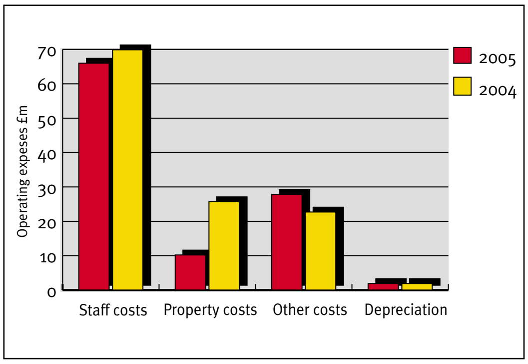
Income from our retail operations was a satisfactory £8.4 million (2004 - £6.9 million) driven by the sale of new home and away kits for the 2004/05 season. The close season saw the launch of the special commemorative home shirt, for the last season at Highbury, which has been a huge success and produced sales figures well in excess of those from any previous kit launch. We are very confident of reporting further growth in our retail incomes for 2005/06.

Commercial revenues showed strong growth to £20.7 million (2004 - £14.1 million). The principal reason for this being the new long term deal with Nike. This was further supported by new sub-sponsor deals including Lucozade, MBNA and BMI. As I mentioned above commercial revenues for 2004/05 include only a notional amount from the Emirates arrangements as revenue recognition for the majority of the income from this contract will commence, in line with the rights granted to Emirates, from the 2006/07 season.

Turnover from the Group's property development activities of £23.3 million was mainly the result of the sale of two development sites to Newlon Housing Trust, including the Northern Triangle site which sits adjacent to the north end of the Emirates Stadium. In addition, we recognised revenue from enhancements to sales completed in the previous year and the release of amounts previously retained by purchasers.

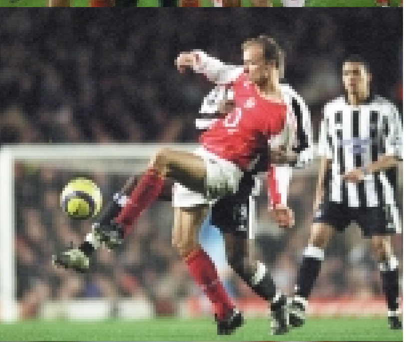
OPERATING EXPENSES (EXCLUDING PLAYER TRADING)

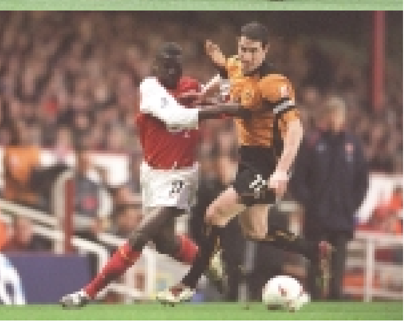
Operating expenses, excluding player trading, decreased from £120.2 million to £105.8 million.



Our wage bill represents the Group's largest operating cost and at £66.0 million (2004 - £69.9 million) provided a wage / turnover ratio of 47.7% (2004 – 44.5%). The decrease is a result of several senior players leaving the Club in the 2004 close season and lower League and Champions League performance related bonus payments.

The cost of property sales represents the costs of assembling the respective development sites sold in the year. The

CHAIRMAN'S REPORT

decrease reflects the reduced activity and fall in income in this area of our business, which I have referred to above.

Other operating costs have risen from £22.9 million to £27.6 million for two main reasons. Firstly, cost increases linked directly to revenue streams, such as the direct costs of running our new and very successful membership scheme - The Arsenal - and our retail business. Secondly, operational costs related to our move to the Emirates Stadium, such as the costs of operating the Reservations Centre and marketing costs. There will also be additional costs in the coming year as our operational team prepare for the move to Emirates Stadium.

PLAYER TRADING

The overall cost for the year on player trading was £12.1 million (2004 – £23.6 million). A slightly improved profit from sales at £2.9 million (2004 - £2.3 million) was due to a mix of appearance fees deriving from previous transfers and the sale of Jermaine Pennant.

The main variation in player trading was the reduced amortisation charge for the year which reflects the fact that over the last two years we have chosen to build on an already strong and stable playing squad through a relatively low transfer outlay targeted at younger players such as Cesc Fabregas, Mathieu Flamini , Philippe Senderos and Robin van Persie.

PROFIT AFTER TAXATION

The retained profit for the year was £8.3 million against £8.2 million for the previous year.

The tax charge for the year was £11.0 million (2004 - £2.4 million) at an effective rate of 56.9% (2004 – 22.9%).

The effective rate of tax is a consequence of provisions made to deal with a recent House of Lords ruling on the deductibility for corporation tax purposes of contributions made by companies to Employee Benefit Trusts ("EBT"). The Group has used an EBT, as part of its remuneration arrangements, for a number of years and claimed a corporate tax deduction for the contributions made in line with the then current law. We are reviewing the House of Lords ruling and assessing its impact on the Group, however, we believe it is prudent in these accounts to reserve for the tax which may become payable in the event that tax relief for the Group's past EBT contributions is denied.

CASH FLOW AND TREASURY

The Group's operations were strongly cash generative for the year producing a net cash inflow of £81.1 million (2004 - £40.7 million). The following table shows how this cash was utilised in the year.

	£m
Cash from operations	**81.1**
Cash from share issue	30.0
Net cash from bank loans	55.5
Net spend on player registrations	(8.7)
Net interest payments	(14.1)
Investment in fixed assets	(97.8)
Taxation paid	(0.4)
Increase in year end cash reserves	**45.6**

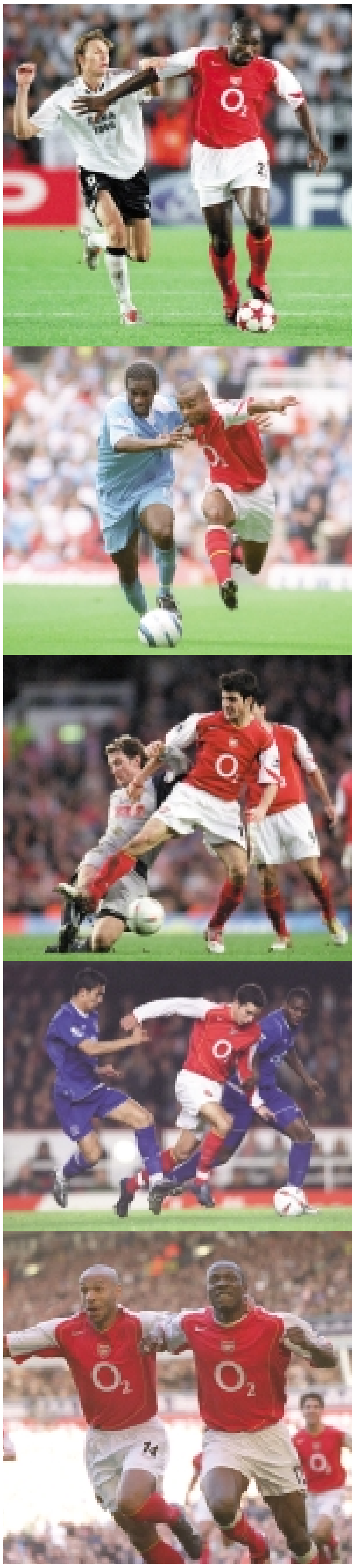
CHAIRMAN'S REPORT

The most significant cash outflow was expenditure on fixed assets and this mainly relates to our investment in the Emirates Stadium development. In addition, most of the net interest payments relate to the bank loans the Group is using to finance the Emirates Stadium project. This interest is being capitalised during the construction phase of the project.

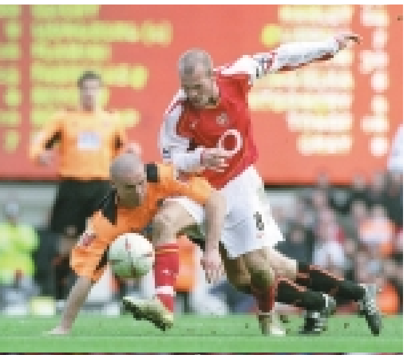
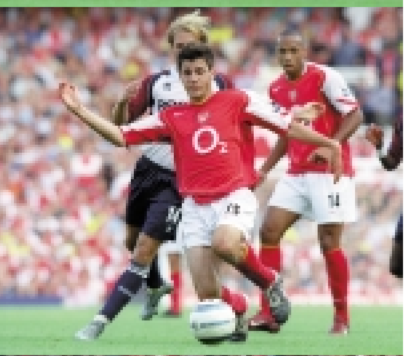
An overall picture of the Group's financing structure is provided in the table below.

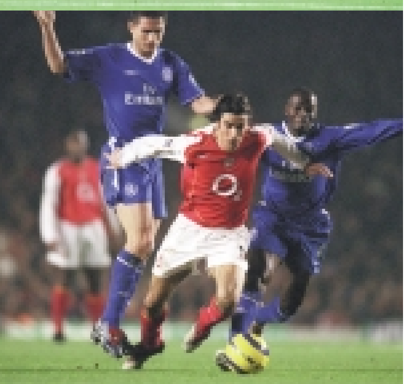
All but £7.6 million of the Group's bank debt is covered by interest rate swaps which serve to fix the rate of interest and this is in line with the Group's policy of not exposing itself to interest rate risk.

The property development business made repayments, in accordance with the schedule agreed with our bankers, against its property development loans of £17.1 million. These repayments were made, in the main, from the collection of sale proceeds receivable from one of last year's development site sales in accordance with our contract with the purchaser.



	Emirates Stadium Financing £m	Property Development Financing £m	Debenture Loans £m	Cash Reserves £m
Balance at 1/6/04	(92.8)	(65.2)	(24.9)	26.0
Movement in year	(72.8)	17.1	(0.3)	45.6
Balance at 31/5/05	(165.6)	(48.1)	(25.2)	71.6
Fixed rate	(165.6)	(40.5)	(10.8)	-
Floating rate	-	(7.6)	-	71.6
Interest free	-	-	(14.4)	-
	(165.6)	(48.1)	(25.2)	71.6
Term of fixed rate loans - yrs	12	2	23	N/A
Term of non fixed rate loans - yrs	N/A	2	137	N/A
Fixed rate - %	7.7	6.4	2.8	N/A

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During the year we drew down £72.8 million of new loans from the £260 million senior debt bank facility which we have in place to fund the Emirates Stadium development. The interest rate on this facility reflects the construction risk inherent of a project of this scale.

This risk is rapidly diminishing in line with the excellent progress being made on the construction works. Consequently we are now actively examining the opportunities to re-finance this loan, possibly through a bond issue, into a longer term debt structure and at a lower interest rate.

In addition, to the re-financing of the Emirates Stadium debt we are discussing with our bankers suitable funding for the re-development of Highbury. We believe the Highbury Square project, which will convert our famous stadium into 656 market housing residential units and 55 affordable housing residential units over the next six years, represents a unique opportunity for a prestige development and we expect the project to allow the Group to substantially reduce its debt levels.

EMIRATES STADIUM – ADVANCE SALES

By the year end we had received some £16.4 million from deposits and initial instalment payments for executive boxes and Club Level seats at Emirates Stadium. This revenue is treated as deferred income in the accounts and it will be transferred to the profit and loss over the seasons to which the sale relates.

The 150 executive boxes at Emirates Stadium are now effectively all sold. With a year still to go to the opening of the new stadium this is a very satisfactory position.

We are also making good progress with the pre-sale of seats at Club Level, which is a separate tier of eight rows of seats encircling the stadium at Directors' Box level backed by a range of bars, lounges and restaurants and offering what we believe will be a unique match day experience.

We commenced the sale of season tickets at Emirates Stadium in August and detailed information on how this will work has been sent to all of our existing season ticket holders. At the outset of this complex process we have confirmed that there will be no season ticket price increases in equivalent seat categories from Highbury to the first season at Emirates Stadium.

AGM

Following the successful trial last year of requesting shareholders to submit written questions in advance of the AGM, so that the directors can respond to questions across the widest possible range of topics, we intend to use the same process again at this year's AGM. A pre-printed form for submitting questions can be found enclosed with this Annual Report together with instructions on where to return it to. We will, of course, also allocate some time at the AGM for questions from the floor.

PROSPECTS

Two events which will impact on the Group's profitability for 2005/06 have already occurred since the year end. Firstly, we have completed the sale of one small property development site to Newlon Housing Trust for a price of approximately £4 million and, secondly, the Club has sold Patrick Vieira to Juventus for €20 million. This obviously represents, in financial terms, a very profitable start to the year.

CHAIRMAN'S REPORT

Construction activity on the Emirates Stadium will continue throughout 2005/06 with the emphasis moving to the internal fitting out works and finishes. There remains a huge amount of work to complete alongside the construction work itself in order to be operationally ready for the start of the 2006/07 season but I am very confident that our project team will meet all of the challenges ahead of them.
Other developments for 2005/06 include:

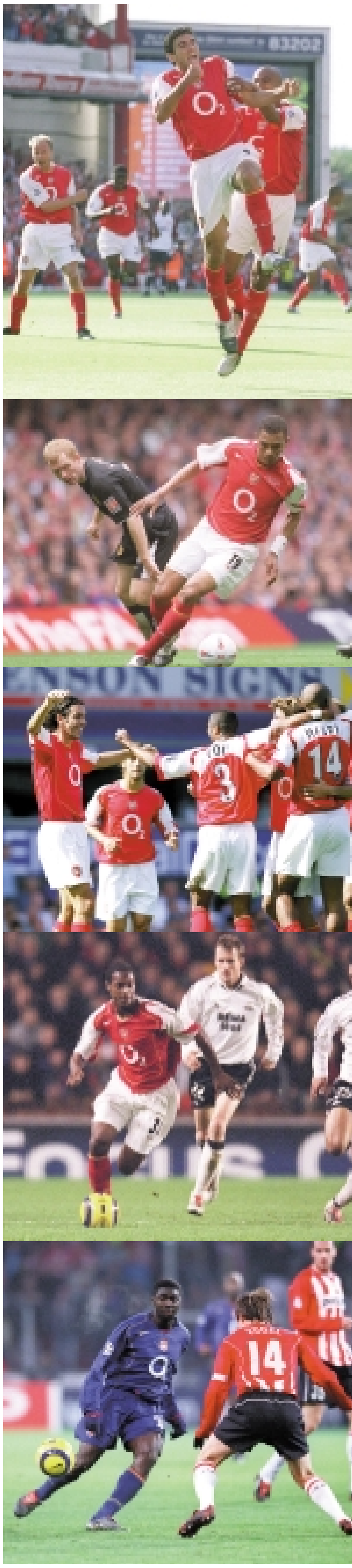
- Construction and fit out of a £10 million new office building for the Group, on the Drayton Park side of the North Bridge access to the Emirates Stadium;
- Expected completion of the sale of the main Drayton Park property development site;
- Progression of proposals relating to the property development site at Queensland Road;
- Progression of plans for the re-development of Highbury; and
- Arsenal's eighth consecutive season of participation in the UEFA Champions League.

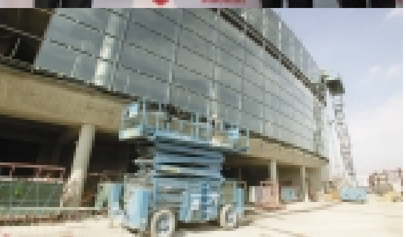
The Group has once again delivered a strong set of financial results finishing 2004/05 with an after tax profit of £8.3 million and in excess of £70 million of cash in the bank and, accordingly, we go into the new year in a very satisfactory financial position.

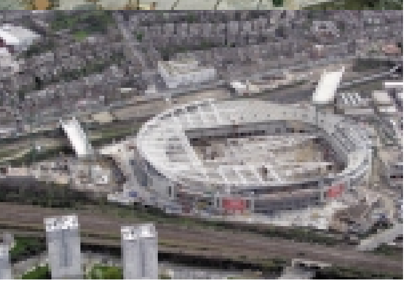
The start of any new football season is always an exciting prospect and we have every confidence that Arsène Wenger and his players will once again put Arsenal in the hunt for silverware. The 2005/06 season, however, will be a particularly poignant and special one for every Arsenal supporter and for all of the Group's staff as it will be the Club's last at Highbury. A whole series of special events and match-day activities are being arranged to commemorate and provide a suitable final salute to this grand old stadium, the Club's home since 1913. So much has been achieved so quickly over the last few years and it is remarkable to reflect on the fact that we now have perhaps less than 30 Arsenal matches to watch at Highbury before this great chapter in the Club's history draws to a close.

I would, as ever, like to close my report by paying tribute to my fellow directors, our management team and all of our staff for their commitment and professionalism over the last year. Also, I would like to thank all of our shareholders, supporters and sponsors for your continued support.

P D Hill-Wood
Chairman
2 September 2005







EMIRATES STADIUM

During the 2004/05 season, all scheduled milestones were achieved in the construction of Arsenal's new 60,000 capacity Emirates Stadium. The overall stadium structure is now complete.

September 2004 saw the official opening of the new Waste and Recycling Centre at Hornsey Street, N7, to replace the ageing Ashburton Grove Waste Transfer facility, which was situated on the site of the new stadium. The new facility accommodates a Waste and Recycling Centre, Re-use and Recycling Centre and Islington's vehicle maintenance depot and will offer vast improvements over the old Ashburton Grove Waste Transfer Site, which had served Islington and surrounding councils for nearly 70 years. The modern facility provides considerable environmental and operational improvements.

In October 2004, the new stadium was officially named 'Emirates Stadium' when Arsenal Football Club signed the biggest club sponsorship deal in English football history with Emirates, providing the Dubai-based international airline with naming rights to the Club's new stadium for the next 15 years.

The construction milestones at Emirates Stadium over the last year have included the placement of two large pedestrian bridges, 15 metres and 21 metres wide respectively, which are situated along the eastern edge of Emirates Stadium, to provide supporters with access across the railway line from Drayton Park. In addition, the north and south sections of the roof structure were successfully lifted into place in December 2004 and April 2005.

Throughout the year, the Club organised a number of special events linked with the move to Emirates Stadium.

In October 2004, Arsène Wenger, Patrick Vieira and Thierry Henry joined Club officials and guests to bury a Time Capsule at Emirates Stadium containing memorabilia and keepsakes from Highbury.

In February 2005, over 100 pupils from seven north London schools visited Highbury to have their questions answered about the Emirates Stadium project by leading figures from Arsenal and stadium construction contractor Sir Robert McAlpine.

Also, over the course of the year, the Club partnered RoSPA (The Royal Society for the Prevention of Accidents) and visited local schools in an effort to educate children on the possible dangers surrounding a construction site. This initiative was accompanied with a poster competition, in which the winning design was displayed outside the stadium site, carrying an appropriate safety message. The local schools close to Emirates Stadium and Highbury were also visited by Sir Robert McAlpine over the course of the year, where company officials delivered presentations about the construction process and the regeneration of the local area.

To celebrate the construction works reaching the highest point in the new stadium, the Club, together with Sir Robert McAlpine and Emirates, staged a 'Topping Out Ceremony' in August 2005. This traditional event to the construction industry was attended by hundreds of guests, including Arsène Wenger who released a giant banner from the East Stand roof.

The regenerative aspect to the project continued over the year, with good progress made on the planned residential developments throughout the Borough of Islington. These developments will eventually provide the area with over 2,600 new homes, including much affordable accommodation, commercial space and local health facilities.

Over the course of the 2005/06 season, many of the finishing features of Emirates Stadium will be completed, such as the installation of the specially designed seating, internal fit-outs, the completion of the external façade glazing and, of course, construction of the pitch itself.

As Arsenal bids a final farewell to Highbury and looks forward to moving to Emirates Stadium, the next 12 months will be an eventful but exciting time.

REVIEW OF THE 2004/2005 SEASON

FIRST TEAM

Arsenal started the 2004/05 season in tremendous form, winning the first five Premiership matches and scoring 32 goals in the first ten games of the season, including the 3-1 win over Manchester United in the Community Shield in August.

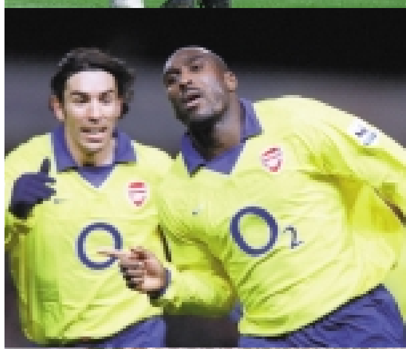
In addition, the team also set a new record of 49 consecutive unbeaten league matches which stretched from the penultimate game of the 2002/03 season against Southampton at Highbury on Wednesday, May 7, 2003 and finished with the 2-0 defeat at Old Trafford against Manchester United on Sunday, October 24, 2004.

Arsène Wenger's team started their UEFA Champions League campaign with four points from the first two matches, but subsequently, a run of three consecutive draws seemed to threaten qualification for the next stage of the competition. However, a resounding 5-1 win over Rosenborg at Highbury in the last group match secured the passage into the Knockout Round as group winners.

The Club's youngsters, meanwhile, were given a chance to impress in the Carling Cup and fine victories over Premiership opposition in the form of Manchester City and Everton showed the potential of some of the Club's young players.

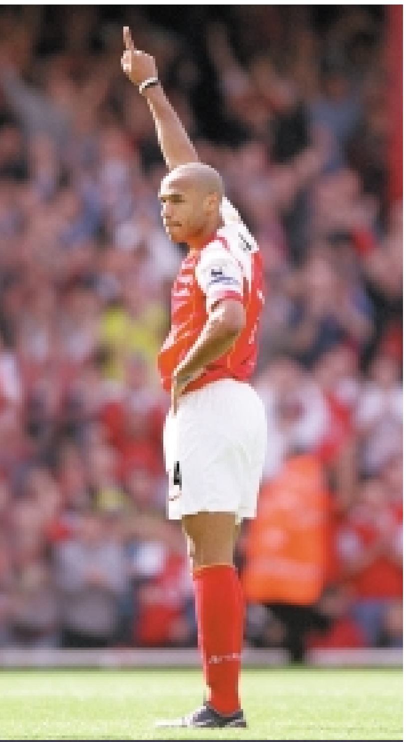
The New Year saw the UEFA Champions League campaign recommence but, despite a fabulous Thierry Henry goal in the second leg at Highbury, Bayern Munich prevailed 3-2 on aggregate.

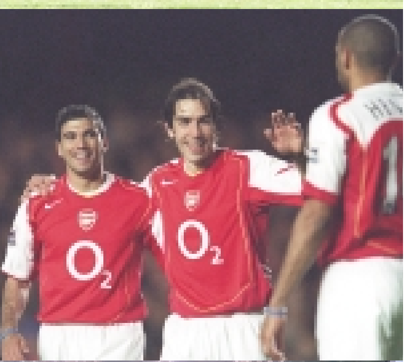
The season ended on a high, with a run of 12 league games unbeaten culminating in a rousing 7-0 home win against Everton as Arsenal finished runners-up in the Premiership. The Club also finished the season as highest scorers in the Premiership with 87 goals.



BARCLAYS PREMIERSHIP 2004/2005 FINAL TABLE

		HOME					AWAY						
	P	W	D	L	F	A	W	D	L	F	A	GD	Pts
Chelsea	38	14	5	0	35	6	15	3	1	37	9	+57	95
Arsenal	38	13	5	1	54	19	12	3	4	33	17	+51	83
Manchester United	38	12	6	1	31	12	10	5	4	27	14	+32	77
Everton	38	12	2	5	24	15	6	5	8	21	31	-1	67
Liverpool	38	12	4	3	31	15	5	3	11	21	26	+11	58
Bolton Wanderers	38	9	5	5	25	18	7	5	7	24	26	+5	58
Middlesbrough	38	9	6	4	29	19	5	7	7	24	27	+7	55
Manchester City	38	8	6	5	24	14	5	7	7	23	25	+8	52
Tottenham Hotspur	38	9	5	5	36	22	5	5	9	11	19	+6	52
Aston Villa	38	8	6	5	26	17	4	5	10	19	35	-7	47
Charlton Athletic	38	8	4	7	29	29	4	6	9	13	29	-16	46
Birmingham City	38	8	6	5	24	15	3	6	10	16	31	-6	45
Fulham	38	8	4	7	29	26	4	4	11	23	34	-8	44
Newcastle United	38	7	7	5	25	25	3	7	9	22	32	-10	44
Blackburn Rovers	38	5	8	6	21	22	4	7	8	11	21	-11	42
Portsmouth	38	8	4	7	30	26	2	5	12	13	33	-16	39
West Bromwich Albion	38	5	8	6	17	24	1	8	10	19	37	-25	34
Crystal Palace	38	6	5	8	21	19	1	7	11	20	43	-21	33
Norwich City	38	7	5	7	29	32	0	7	12	13	45	-35	33
Southampton	38	5	9	5	30	30	1	5	13	15	36	-21	32





REVIEW OF THE 2004/2005 SEASON

The good end of season league form was replicated in the FA Cup, where wins against Stoke City, Wolverhampton Wanderers, Sheffield United, Bolton Wanderers and Blackburn Rovers meant the Club reached the FA Cup Final. In the Final Arsenal met and ultimately beat on penalties, Manchester United, to record their tenth win in the competition.

Notable records and achievements by Arsène Wenger and his team in 2004/05:

FA Cup – Beat Manchester United on penalties to win Arsenal a tenth FA Cup. In addition, Arsenal have appeared in 17 Finals, and 25 FA Cup Semi-Finals – each records.

Unbeaten league game sequence – Set a record of 49 games unbeaten.

Club record for biggest Premiership win – 7-0 v Everton on May 11, 2005. In addition, this was the biggest win in any competition for Arsenal under Arsène Wenger.

Club record for the most Premiership goals in one season – 87, beating the 2002/2003 record of 85.

Thierry Henry
- Premiership Golden Boot winner with 25 goals.
- European Golden Shoe winner for the second consecutive season, as the leading goalscorer in all European Leagues.
- Voted Second in FIFA World Player of the Year poll.

Arsène Wenger – Barclays Premiership Manager of the Month for August 2004.

Jose Antonio Reyes – Barclays Premiership Player of the Month for August 2004.

Patrick Vieira – Became Arsenal's most capped International player, making his 78th appearance for France against Switzerland on March, 26, 2005. Also made Captain of the France national team.

Cesc Fabregas – Became Arsenal's youngest scorer in the Premiership with his strike against Blackburn Rovers in the 3-0 win on August 25, 2004.

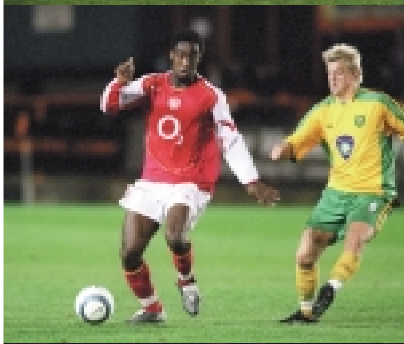
Arsenal's 500th Premiership match – Played against Middlesbrough on April 9, 2005 at The Riverside. Arsenal won 1-0.

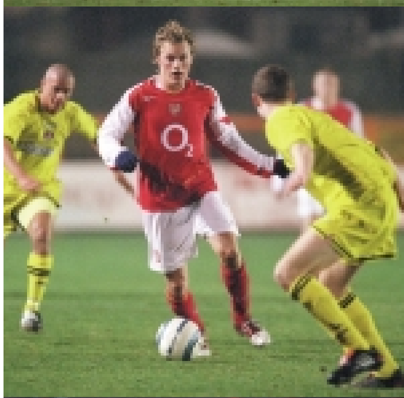
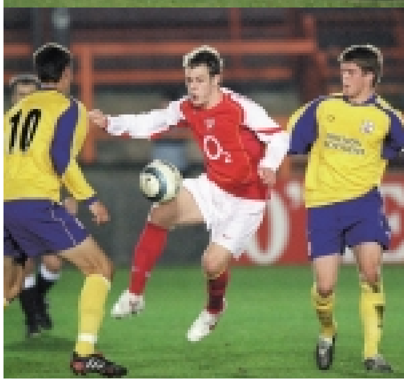
The PFA Team of the Season – Both Thierry Henry and Ashley Cole were included.

Philippe Senderos – Made his full international debut for Switzerland.

Robin van Persie – Made his full international debut for the Netherlands.

REVIEW OF THE 2004/2005 SEASON

Reserves

Arsenal Reserves capped a great season with a third place finish in the FA Barclays Reserve League South, building on the sixth place finish in the 2003/04 season.

The team had a very consistent start to the season, winning their first four games and remaining unbeaten for the first ten matches. Following the departure of Eddie Niedzwiecki to Blackburn Rovers in October, managing duties were passed to Neil Banfield, the former Under-18s coach, who continued the great work with the young players.

Consecutive defeats to Norwich City and Charlton Athletic in November ended the unbeaten start to the season, but subsequent fine form, ensured a top three finish in the FA Premier Reserve League - South. Arsenal was in fact denied second place on the last day of the season following Southampton's 3-1 victory over Coventry City.

FA BARCLAYCARD PREMIERSHIP RESERVE LEAGUE SOUTH 2004/2005 FINAL TABLE

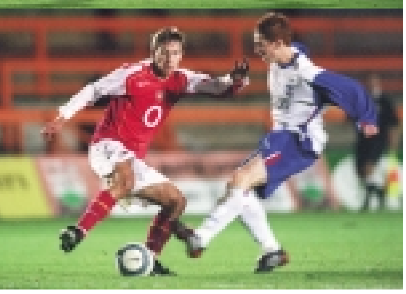
	P	W	D	L	F	A	GD	Pts
Charlton Athletic	28	18	7	3	46	21	25	61
Southampton	28	18	4	6	68	29	39	58
Arsenal	28	17	5	6	65	38	27	56
Crystal Palace	28	16	5	7	47	22	25	53
Tottenham Hotspur	28	13	8	7	47	35	12	47
Chelsea	28	10	8	10	28	28	0	38
Watford	28	9	9	10	32	33	-1	36
Norwich City	28	10	4	14	24	40	-16	34
Fulham	28	8	9	11	29	35	-6	33
Derby County	28	9	6	13	29	48	-19	33
West Ham United	28	7	9	12	33	51	-18	30
Coventry City	28	7	8	13	29	50	-21	29
Ipswich Town	28	6	6	16	24	35	-11	24
Leicester City	28	5	9	14	36	49	-13	24
Portsmouth	28	5	7	16	28	51	-23	22

Youngster Arturo Lupoli, who signed from Parma in July of 2004, enjoyed a remarkable first year in English football by finishing top of the Reserves goal scoring charts with 19 goals from just 22 appearances. The 18 year-old Italian also scored once in the FA Youth Cup and seven times in the Under-18 league, as well as scoring twice in his four appearances for the First Team, bringing his Club total for the season to 29.

In addition, the Reserve team has again proved a very successful platform for the development of our young players with Philippe Senderos, Quincy Owusu-Abeyie, Justin Hoyte, Ryan Smith and Lupoli, all making appearances in Arsène Wenger's First Team throughout the course of the season.





REVIEW OF THE 2004/2005 SEASON

Youth

A change in structure to the Academy Leagues at the end of last season meant that an Under-18s league replaced the previous Under-17s and Under-19s leagues.

Neil Banfield's promotion to the Reserves in October meant that Steve Bould, the former Under-17s coach, became responsible for the Under-18s. Arsenal defensive legend Bould soon guided the team to five straight wins, including an impressive 6-1 victory over Millwall.

FA PREMIER ACADEMY LEAGUE U18 GROUP A 2004/2005 FINAL TABLE

	P	W	D	L	F	A	GD	Pts
Southampton	28	23	2	3	62	25	37	71
Charlton Athletic	28	14	6	8	35	28	7	48
Arsenal	28	13	3	12	45	39	6	42
Ipswich Town	28	11	6	11	39	39	0	39
West Ham United	28	11	4	13	37	53	-16	37
Millwall	28	11	2	15	34	44	-10	35
Chelsea	28	8	5	15	24	33	-9	29
Crystal Palace	27	7	7	13	35	51	-16	28
Norwich City	28	6	7	15	26	38	-12	25
Fulham	27	4	5	18	23	54	-31	17

The youngsters also made a positive start in the FA Youth Cup with victories over Crystal Palace (3-0) and Preston North End (2-1), before defeat against the eventual finalists and Academy League Group A winners Southampton (0-1).

A strong finish in the league however, which included a 7-1 win over Tottenham Hotspur, secured a very credible third place.

Nicklas Bendtner was the team's highest scorer, finishing his first season at Arsenal with 14 goals. Arturo Lupoli also played in seven Under-18 league games, scoring in each of his appearances. There were many other positives to come from the season and Steve Bould and all the staff in Youth Development will be looking to build on this success in 2005/06.

REVIEW OF THE 2004/2005 SEASON


Ladies

2004/05 was a hugely successful season for the Arsenal Ladies. They retained the league title for the second time in their history and also added the League Cup to their list of honours.

Also, notably, Vic Akers' team reached the Semi-Finals of the Women's UEFA Cup, the furthest stage reached in this competition by any English team. To reach the Semi-Finals, the team overcame opposition from Spain, Greece and Italy, before being knocked out by the Swedish team Djurgarden/Alvsjo, losing 2-1 on aggregate. This run in Europe's elite Ladies club competition was a fantastic achievement and the team can gain many positives, as they look forward to participating in the Women's UEFA Cup again next season, by virtue of winning the Women's Premier League.

In addition, Arsenal Ladies also reached the Semi-Finals of the Women's FA Cup and London County Cup.

FA WOMEN'S PREMIER LEAGUE 2004/2005 FINAL TABLE

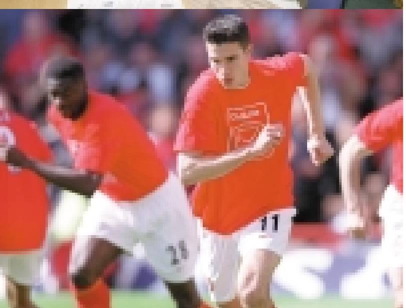
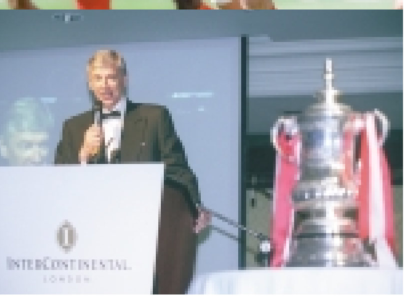
	P	W	D	L	F	A	GD	Pts
Arsenal	18	15	3	0	57	13	+44	48
Charlton Athletic	18	13	2	3	43	17	+26	41
Everton	18	11	4	3	45	24	+21	37
Birmingham City	18	9	3	6	37	28	+9	30
Bristol Rovers	18	9	1	8	35	28	+7	28
Leeds United	18	8	2	8	31	34	-3	26
Fulham	18	3	5	10	18	39	-21	14
Doncaster Rovers Belles	18	3	3	12	10	38	-28	12
Liverpool	18	3	2	13	21	49	-28	11
Bristol City	18	2	3	13	12	39	-27	9

The Women's Premier League was won in enthralling fashion as the Ladies went the entire 18 match league programme unbeaten, recording 15 wins and scoring 57 goals. Highlights included an 8-1 victory over Birmingham City, as well as a 6-2 win over Fulham on the last day of the season.

Scottish International Julie Fleeting was top scorer with 21 goals in all competitions and was awarded the Players' Player of the Year at the Seventh Annual FA Women's Football Awards. Akers also capped another fanatstic season with the Manager of the Year Award at the same ceremony.

At the end of the season, wing-back Clare Wheatley announced her decision to hang up her boots following a ten-year association with the Club. She will, however, continue to perform her role as the Arsenal Ladies' Development Officer.



CHARITY OF THE SEASON

In August 2004, Arsenal continued its successful partnership with its inaugural Charity of the Season, ChildLine - the 24-hour helpline for children in distress. With substantial work still to be achieved after an enjoyable and successful first year working together, the Club renewed the partnership for an additional season and helped ChildLine celebrate its 18th birthday.

The partnership further built upon the £100,000 raised during its first year - the 2003/04 season, with Arsenal helping to increase the number of children and young people who ChildLine's counsellors can give support to through the helpline. Additionally, the partnership continued to assist ChildLine in reaching one of its most difficult targets - boys and young men - through football. By the end of the partnership, Arsenal hopes to have raised nearly £200,000 for the charity and an Inaugural Arsenal Charity Ball was staged as a farewell to the ChildLine association.

Throughout the season, the Club continued its commitment to providing advertising space free of charge at Arsenal Stadium, in the Club's matchday programme and Official Magazine, and on the t-shirts of players as they warmed up before a designated ChildLine Match Day, but also built upon last season's activities to ensure another successful season in partnership with the charity.

Arsenal organised a 'ChildLine Match Day' at its high profile home Premiership match against Liverpool in May. Both teams warmed up in ChildLine t-shirts and funds were raised through a variety of activities including programme sales, raffles and a penalty shoot-out competition which, together, raised more than £9,500.

Supporters Clubs have been particularly supportive of the initiative this season and clubs as far a field as from Cyprus, Republic of Ireland, Daventry, Dover, Maidstone and Milton Keynes have collectively raised £3,359 for the charity.

The partnership went from strength to strength as the Club fortified links between Arsenal Double Club pupils and volunteers and ChildLine in Partnership with Schools (CHIPs) initiative which educates children on how to cope with and solve issues they may face. Drawing upon ChildLine's expertise in working with young people, Double Club volunteers met with CHIPs representatives to learn about effectively communicating with young people.

Other events co-ordinated by the Club on behalf of ChildLine included an auction to meet Ashley Cole at ChildLine's headquarters. Ashley was able to witness at first hand the work undertaken by volunteers and counsellors. Other fundraising auctions over the year to raise funds for ChildLine included Arsenal items such as signed Christmas cards from Jose Antonio Reyes, tickets to Arsenal matches and an opportunity to host a children's party at Highbury in association with the Junior Gunners.

ChildLine's second tenure as the Club's Charity of the Season coincided with the charity's 18th birthday which Arsenal promoted and celebrated this season. Thierry Henry, in particular, helped celebrate the milestone with three donations to the charity totalling £27,000. He received £1,000 for being the first Premiership player to reach 10 and 20 goals and £25,000 for the Golden Boot he was awarded for his 25 Premiership goals in the season.

Following the Inaugural Arsenal Charity Ball, Arsenal hopes to have raised approximately £200,000 for the charity over the course of the last two years. ChildLine relies on voluntary donations for over 90% of its income, so the impact of a donation of this size is considerable. This money will be put towards funding the helpline, enabling ChildLine to answer over 60,000 calls from children and young people (it costs about £3 for ChildLine to answer a call from a child).

For Arsenal's final season at Highbury, the Club will raise funds in memory of Arsenal legend David Rocastle.

ARSENAL IN THE COMMUNITY

Arsenal in the Community celebrated its 20th anniversary this year, with events taking place in February to mark the milestone

Whilst the focus of the department's work involves the local community in north London, over its 20-year history, Arsenal in the Community has established working groups all over the world.

Arsenal in the Community's 20th Anniversary

To commemorate the department's tireless commitment to services to the community, the Club hosted a week-long celebration to involve staff and participants of the many initiatives co-ordinated by Arsenal in the Community.

The 20th anniversary celebrations began with a live radio broadcast from Highbury on London station LBC in aid of the Club's Charity of the Season, ChildLine.

Arsenal legend, Charlie George, helped celebrate the milestone when he visited the bowls at the stadium's sports hall joining with senior citizens, who have been attending bowls sessions at Highbury for 20 years.

Highbury also hosted a question and answer session for local schools on Emirates Stadium with a panel which included Patrick Vieira and Managing Director Keith Edelman.

Arsenal Disability Football

Whilst football sessions for powerchair users and adults with learning difficulties continue, Arsenal's visually impaired sessions saw an exciting development last season as Highbury held the first ever Under-16s London Visually Impaired Football League Tournament.

During this event, the London Visually Impaired Forum staged an open day at Highbury which Arsenal's Brazilian World Cup winner, Gilberto attended.

Arsenal Soccer Schools

Highbury is the headquarters of the Arsenal Soccer Schools, organising football courses for boys and girls at over 100 venues across the south of England and overseas.

Over the course of the year, Soccer Schools coached more than 13,000 young footballers of all abilities between the ages of six and fifteen. More than 100 coaches have received elements of the Club's modular coaching programme which has enabled them to successfully continue to coach youngsters.

Arsenal Abroad

Communities around the world continue to benefit from sport and education projects delivered by the Club. In 2005, Arsenal has made visits to Hong Kong, Malaysia, Germany, and is planning courses in Mumbai, India and Australia before the end of the calendar year.

Arsenal and Positive Futures

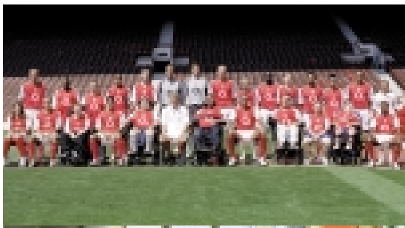
The initiative continues to work with young people from local estates to engage them through sport and provide them with football training. The aim of the project is to have a positive influence on 10 to 19 year-olds.
A football tour to Barcelona was arranged for all participants in May 2005.

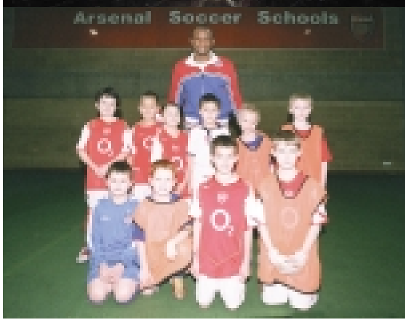
Support for Charities

In addition to the Charity of the Season initiative with ChildLine, the Arsenal Charitable Trust continues to donate to a number of worthwhile causes. During the course of the year some of the organisations who received assistance from the Trust were: The Whittington Hospital, London Youth Games, St John's Deaf Football Club and Marie Curie Hospice.

Pitch Perfect

'Pitch Perfect' sees Arsenal in the Community in partnership with the BBC Singers, the BBC Concert Orchestra, BBC Sport, BBC 21st Century Classroom, The Goethe Institute, Chelsea Football Club, Islington Education and Hammersmith & Fulham Council. This project will oversee the creation of a new football anthem to reflect football in 2005 after identifying a need to develop more links between sport and the arts. The performance of the anthem will take place in November at the Wembley Conference Centre.





DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 May 2005.

Principal activities

The principal activity of the Group is that of a professional football club and the related commercial activities. The Group is also engaged in a number of property developments associated with its new stadium project.

Profits and dividends

The results for the year are set out on page 27 and are considered, together with the Group's future prospects, in the Financial Review section of the Chairman's Report. The directors do not recommend the payment of a dividend (2004 - £Nil).

Directors and their interests

The directors of the company at 31 May 2005, all of whom served throughout the year, except where stated, together with details of their interests in the company's share capital are set out below:

	Ordinary shares of £1 each	
	2005	**2004**
P.D. Hill-Wood	348	348
Lady Nina Bracewell-Smith (appointed 15 April 2005)	9,893	9,893
R.C.L. Carr	2,722	2,722
D.B. Dein	9,072	9,072
K.G. Edelman	25	25
D.D. Fiszman	15,659	15,659
K.J. Friar OBE	199	199
Sir Roger Gibbs	50	50

The shares held by K.G. Edelman are as nominee for D.D. Fiszman.
In addition to the above K.G. Edelman holds 1 Subscriber Ordinary share of £1.
In accordance with the provisions of Article 88 of the Articles of Association P.D. Hill-Wood, R.C.L. Carr and Sir Roger Gibbs retire by rotation and, being eligible, offer themselves for re-election at the company's Annual General Meeting. In addition, Lady Nina Bracewell-Smith, having been appointed during the year, retires and, being eligible, offers herself for re-election.

Substantial shareholdings

In addition to the directors' interests set out above the Company has been notified of the following interests in over 3 per cent of its issued share capital at 26 August 2005:

	Shares	**%**
Granada Media Group Limited	6,216	9.99

On 8 March 2005 the Company issued 3,269 new Ordinary shares of £1 each to Granada Media Group Limited for a cash consideration of £30 million.

Political and charitable contributions

During the year the Group made donations for charitable purposes amounting to £31,972 (2004 - £4,782).

Creditor payment policy

The Group's policy is to pay all creditors in accordance with contractual and other legal obligations. Advantage is taken of available discounts for prompt payment whenever possible.
The rate, expressed in days, between the amounts invoiced to the Group by its suppliers in the year and the amount owing to trade and other creditors at the year end was 25 days (2004 - 22 days).

DIRECTORS' REPORT

Employees

Within the bounds of commercial confidentiality, the Group endeavours to keep staff at all levels informed of matters that affect the progress of the Group and are of interest to them as employees.

The Group operates an equal opportunities policy. The aim of this policy is to ensure that there should be equal opportunity for all and this applies to external recruitment, internal appointments, terms of employment, conditions of service and opportunity for training and promotion regardless of gender, ethnic origin or disability.

Disabled persons are given full and fair consideration for all types of vacancy in as much as the opportunities available are constrained by the practical limitations of the disability. Should, for whatever reason, an employee of the Group become disabled whilst in employment, every step, where appropriate will be taken to assist with rehabilitation and suitable re-training.

The Group maintains its own health, safety and environmental policies covering all aspect of its operations. Regular meetings and inspections take place to ensure all legal requirements are adhered to and that the Group is responsive to the needs of the employees and the environment.

Directors' responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those 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;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution to re-appoint Deloitte & Touche LLP as the Company's auditors will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board

D. Miles

D Miles
Secretary
2 September 2005

Registered office: Arsenal Stadium,
Avenell Road, Highbury,
London.
N5 1BU

CORPORATE GOVERNANCE

The directors acknowledge the importance of the Combined Code and have complied with its requirements so far as is appropriate to a Group of the size and nature of Arsenal Holdings Plc.

Going concern

The directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future, and for this reason the financial statements continue to be prepared on the going concern basis.

Directors

The Board currently consists of three executive directors and five non-executive directors. In addition, T. Betts, as a representative of Granada Media Group Limited, attends board meetings as an observer. The Board meets on a monthly basis to review the performance of the Group and to determine long term objectives and strategies and is supplied with management accounts and other relevant information.
Each of the directors is subject to re-election at least every three years.

Internal control

The Board is responsible for ensuring that the Group maintains a system of internal controls, including suitable monitoring procedures, and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatements or loss.

The Board continuously reviews the effectiveness of the Group's system of internal controls. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Audit Committee assists the Board in discharging its review responsibilities.

Audit Committee

The Audit Committee, consists of three non-executive directors, D.D. Fiszman (Chairman), P.D. Hill-Wood, R.C.L. Carr together with the Granada Media representative as an observer.
The Committee considers matters relating to the financial accounting controls, the reporting of results and the effectiveness and cost of the audit. It meets at least twice a year with the Group's auditors.

Remuneration Committee

The Remuneration Report is set out on page 25.

THE REMUNERATION REPORT

The Remuneration Committee

The Committee consists of three non-executive directors, P.D. Hill-Wood (Chairman), Sir Roger Gibbs, and R.C.L. Carr, together with the Granada representative as an observer.

Policy on remuneration of executive directors

The purpose of the Remuneration Committee is to consider all aspects of executive directors' remuneration and to determine the specific remuneration packages of each of the executive directors and, as appropriate, other senior executives, ensuring that the remuneration packages are competitive within the industry in which the Group operates and reflect both Group and personal performance during the year.

The present opinion of the Committee is that the Group's executives are best remunerated by a salary, discretionary bonus and pension contributions the aggregate of which is intended to reflect market conditions and the performance of the Group and of the individual.

Policy on remuneration of the non-executive directors

The Board as a whole sets the remuneration of the non-executive directors.

Directors' remuneration

A full analysis of the directors' remuneration is set out in note 7 to the financial statements.

P.D. Hill-Wood
Chairman of the Remuneration Committee
2 September 2005

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARSENAL HOLDINGS PLC

We have audited the financial statements of Arsenal Holdings Plc for the year ended 31 May 2005 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein.
This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.
We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.
We read the Chairman's report and the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company and group's affairs as at 31 May 2005 and the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
2 September 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 May 2005

	Note	2005 Operations excluding player trading £000's	2005 Player trading £000's	2005 Total £000's	2004 Operations excluding player trading £000's	2004 Player trading £000's	2004 Total £000's
Turnover of the group including its share of joint ventures		138,983	-	138,983	156,791	500	157,291
Share of turnover of joint venture		(588)	-	(588)	(404)	-	(404)
Group turnover	3	138,395	-	138,395	156,387	500	156,887
Operating expenses - other	4	(105,764)	(14,993)	(120,757)	(120,225)	(20,137)	(140,362)
Operating expenses - exceptional	4	-	-	-	-	(6,269)	(6,269)
Total operating expenses		(105,764)	(14,993)	(120,757)	(120,225)	(26,406)	(146,631)
Operating profit/(loss)		32,631	(14,993)	17,638	36,162	(25,906)	10,256
Share of joint venture operating result		204	-	204	(67)	-	(67)
Profit on disposal of player registrations		-	2,894	2,894	-	2,282	2,282
Profit/(loss) on ordinary activities before finance charges		32,835	(12,099)	20,736	36,095	(23,624)	12,471
Net finance charges	5			(1,471)			(1,894)
Profit on ordinary activities before taxation				19,265			10,577
Taxation	8			(10,972)			(2,425)
Profit after taxation retained for the financial year				8,293			8,152
Earnings per share (basic and diluted)	9			£138.91			£138.29

Player trading consists primarily of the amortisation of the costs of acquiring player registrations, any impairment charges and profit on disposal of player registrations.

All trading resulted from continuing operations.

There are no recognised gains or losses in the year other than those recorded in the consolidated profit and loss account and, accordingly, no statement of total recognised gains and losses is presented.

BALANCE SHEET

At 31 May 2005

	Note	Group 2005 £000's	Group 2004 £000's	Company 2005 £000's	Company 2004 £000's
Fixed assets					
Tangible fixed assets	10	314,822	209,615	-	-
Intangible fixed assets	11	28,983	34,989	-	-
Investments	12	-	-	30,059	30,059
		343,805	244,604	30,059	30,059
Current assets					
Stock – development properties	13	28,125	20,009	-	-
Stock – retail merchandise		711	702	-	-
Debtors - due within one year	14	26,449	30,647	-	-
- due after one year	14	8,479	18,697	40,921	40,610
Cash at bank and in hand		71,629	26,003	30,300	-
		135,393	96,058	71,221	40,610
Creditors: amounts falling due within one year	15	(107,244)	(103,537)	-	-
Net current assets/(liabilities)		28,149	(7,479)	71,221	40,610
Total assets less current liabilities		371,954	237,125	101,280	70,669
Creditors: amounts falling due after more than one year	16	(238,706)	(148,579)	(10,392)	(10,105)
Provisions for liabilities and charges	18	(10,592)	(4,183)	-	-
Net assets		122,656	84,363	90,888	60,564
Equity capital and reserves					
Called up share capital	19	62	59	62	59
Share premium	20	29,997	-	29,997	-
Merger reserve	21	26,699	26,699	-	-
Profit and loss account	22	65,898	57,605	60,829	60,505
Equity shareholders' funds		122,656	84,363	90,888	60,564

These financial statements were approved by the Board of Directors on 2 September 2005.

Signed on behalf of the Board of Directors

P.D. Hill Wood
Director

K.G. Edelman
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 May 2005

	Note	2005 £000's	2004 £000's
Net cash inflow from operating activities	24a	81,159	40,671
Player registrations	24d	(8,736)	(12,188)
Returns on investment and servicing of finance	24d	(14,072)	(5,334)
Taxation		(441)	917
Capital expenditure	24d	(97,813)	(105,067)
Net cash outflow before financing		(39,903)	(81,001)
Financing	24d	85,529	113,833
Increase in cash in the year		45,626	32,832

NOTES TO THE ACCOUNTS

For the year ended 31 May 2005

1. Principal accounting policies

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below and have been consistently applied throughout the year and preceding year.

(b) Basis of preparation of Group financial statements

The Group financial statements consolidate the assets, liabilities and results of the Company and its subsidiary undertakings made up to 31 May 2005.

Assets and liabilities held in the Group's employee benefit trusts are included in the consolidation in accordance with the requirements of UITF 32. Long term receivables included in the trust's balance sheet have been discounted to their net present value by applying a discount rate of 5%.

As permitted by Section 230 of the Companies Act 1985 the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's retained profit for the year was £0.3 million (2004 - £8.0 million). All of the Company's operating costs are borne by a subsidiary company.

(c) Joint venture

The joint venture is an undertaking in which the Group holds an interest on a long term basis and which is jointly controlled by the Group, which holds 50% of the voting rights, and another party under a contractual arrangement.

The Group's share of the results of its joint venture is included in the consolidated profit and loss account on the basis of audited financial statements. The Group's share of the results and net assets of the joint venture is included under the gross equity method and stated after adjustment to eliminate the Group's share of profits resulting from transactions between the Group and the joint venture which are included in carrying amount of assets reported in the joint venture's balance sheet.

(d) Turnover and income recognition

Turnover represents income receivable, net of VAT, from football and related commercial activities and income from the sale of development properties completed in the year. The Group has two classes of business - the principal activity of operating a professional football club and property development - both businesses are carried out principally within the United Kingdom.

Gate and other match day revenue is recognised over the period of the football season as games are played. Sponsorship and similar commercial income is recognised over the duration of the respective contracts. The fixed element of broadcasting revenues is recognised over the duration of the football season whilst facility fees for live coverage or highlights are taken when earned. Merit awards are accounted for only when known at the end of the financial period. UEFA pool distributions relating to participation in the Champions League are spread over the matches played in the competition whilst distributions relating to match performance are taken when earned; these distributions are classified as broadcasting revenues. Fees receivable in respect of the loan of players are included in turnover over the period of the loan.

Income from the sale of development properties is recognised on completion of the relevant sale contract. Where elements of the sale price are subject to retentions by the purchaser the retained element of the sale price is not recognised until such time as all of the conditions relating to the retention have been satisfied.

NOTES TO THE ACCOUNTS

For the year ended 31 May 2005

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Depreciation

Depreciation is calculated to reduce the cost of plant, equipment, motor vehicles and land and buildings to the anticipated residual value of the assets concerned in equal annual instalments over their estimated useful lives as follows:

Freehold buildings	2% per annum	Plant and equipment	10% to 20% per annum
Leasehold properties	Over the period of the lease	Motor vehicles	25% per annum

Freehold land is not depreciated. No depreciation is, or will be, charged on the Group's new stadium development until the new stadium is complete and ready for use in the Group's business.

(f) Emirates Stadium project

Directly attributable costs incurred in the period relating to the Emirates Stadium development have been capitalised. Certain construction and related costs, which ultimately represent consideration for freehold land at the Emirates Stadium site, are recorded as Assets in the Course of Construction until completion of the land acquisition when they are transferred to Freehold Property.

(g) Finance costs

Finance costs of debt, in the form of bank loans, (including the costs directly attributable to obtaining the loan finance) are recognised in the profit and loss account over the term of the debt at a constant rate on the carrying amount.
Finance costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. Capitalisation will cease when substantially all of the activities that are necessary to get the asset ready for use are complete.

(h) Debt

Debt is initially stated at the amount of the net proceeds after deduction of the costs of obtaining the finance. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period. The carrying value of long term debt is not discounted.

(i) Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to interest rate movements. The Group does not hold derivative financial instruments for speculative purposes.
The Group's interest rate swaps are treated as hedges because the instruments relate to actual liabilities and change the nature of the interest rate by converting variable rates into fixed rates. Interest differentials under the swaps are recognised by adjusting net interest payable over the period of the contracts.

(j) Stocks

Stocks comprise retail merchandise and development property for onward sale and are stated at the lower of cost and net realisable value.
Where properties which are intended to be sold have been acquired they have been included in stock as development properties. Development property comprises freehold land inclusive of the direct cost of acquisition and other directly attributable property development costs including interest costs.

(k) Player registrations

The costs associated with the acquisition of players' registrations are capitalised and amortised, in equal instalments, over the period of the respective players' contracts. Provision is made for any impairment and player registrations are written down for impairment when the carrying amount exceeds the amount recoverable through use or sale.

NOTES TO THE ACCOUNTS

For the year ended 31 May 2005

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Player registrations (continued)

Under the conditions of certain transfer agreements, further fees will be payable to the vendors in the event of the players concerned making a certain number of First Team appearances or on the occurrence of certain other specified future events. Liabilities in respect of these additional transfer fees are accounted for, as provisions, when it becomes probable that the number of appearances will be achieved or the specified future events will occur.

Profits or losses on the sale of players represent the transfer fee receivable, net of any transaction costs, less the unamortised cost of the player's registration.

(l) Foreign currencies

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign currency assets and liabilities held at the year end are translated at year-end exchange rates. Exchange gains or losses are dealt with in the profit and loss account.

(m) Deferred income

Deferred income represents income from sponsorship agreements and other contractual agreements which will be credited to the profit and loss account over the period of the agreements, season ticket renewals for the 2005/06 season and the pre-sale of executive boxes and Club Tier seats at Emirates Stadium.

(n) Grants

Grants received in respect of tangible fixed assets are credited to the profit and loss account over the expected useful economic lives of the assets to which they relate. Grants received but not yet released to the profit and loss account are included in the balance sheet as deferred income.

(o) Leases

Rentals payable under operating leases are charged to the profit and loss account in the period in which they fall due.

(p) Pensions

The Group makes contributions on behalf of employees and directors to a number of independently controlled defined contribution and money purchase schemes the principal one of which is The Football League Pension and Life Assurance Scheme. Contributions are charged to the profit and loss account over the period to which they relate.

In addition the Group is making contributions in respect of its share of the deficit of the defined benefit section of The Football League Pension and Life Assurance Scheme (the "Scheme"). A provision has been established for the Group's share of the deficit which exists in this section of the scheme and this additional contribution is being charged to the profit and loss account over the remaining service life of those Arsenal employees who are members of the Scheme. The amount attributable to employees who have already retired or who have left the Group has been charged to the profit and loss account.

Under the provisions of FRS 17 - Retirement Benefits - the Scheme would be treated as a defined benefit multi-employer scheme. The Scheme's actuary has advised that the participating employers' share of the underlying assets and liabilities cannot be identified on a reasonable and consistent basis and accordingly no disclosures are made under the provisions of FRS 17.

The assets of all schemes are held in funds independent from the Group.

NOTES TO THE ACCOUNTS

For the year ended 31 May 2005

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(q) Taxation

Current tax, including UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

A deferred tax asset is recognised only when, on the basis of available evidence, it can be regarded as more likely than not that the reversal of underlying timing differences will result in a reduction in future tax payments.

2. Segmental analysis

Class of business:	**Football**		**Property development**		**Group**	
	2005 £000's	**2004** £000's	**2005** £000's	**2004** £000's	**2005** £000's	**2004** £000's
Turnover	115,083	115,062	23,312	41,825	138,395	156,887
Segment operating profit/(loss)	5,195	(5,797)	12,443	16,053	17,638	10,256
Share of operating profit/ (loss) of joint venture	204	(67)	-	-	204	(67)
Profit on disposal of player registrations	2,894	2,282	-	-	2,894	2,282
Net finance charges	576	(1,090)	(2,047)	(804)	(1,471)	(1,894)
Profit/(Loss) on ordinary activities before taxation	8,869	(4,672)	10,396	15,249	19,265	10,577
Segment net assets/(liabilities)	117,918	84,980	4,738	(617)	122,656	84,363

3. Turnover

	2005	**2004**
Turnover, all of which originates in the UK, comprises the following:	£000's	£000's
Gate and other match day revenues	37,397	33,765
Broadcasting	48,594	59,780
Retail	8,389	6,885
Commercial	20,703	14,132
Property development	23,312	41,825
Player trading	-	500
	138,395	156,887

NOTES TO THE ACCOUNTS

For the year ended 31 May 2005

4. Operating expenses

Operating expenses comprise:	2005 £000's	2004 £000's
Amortisation of player registrations	14,993	20,137
Depreciation	1,933	1,922
Total depreciation and amortisation	16,926	22,059
Staff costs (see note 6)	66,012	69,889
Cost of property sales	10,220	25,526
Other operating charges	27,599	22,888
Operating expenses before exceptional items	120,757	140,362
Impairment of player registrations – exceptional	-	6,269
Total operating expenses	120,757	146,631

Last year exceptional charges represented an additional amortisation charge of £6,269,000 which was made to reflect the impairment in carrying value of certain players' registrations and to reduce the book value of those registrations to their expected recoverable amount.

Other operating charges include:

Auditors' remuneration		
- audit	100	93
- non-audit services	516	432
Operating lease payments		
- plant and machinery	249	224
- other	663	303
(Profit) on disposal of tangible fixed assets	(41)	(20)

Included in the above are audit fees of £10,500 (2004 - £10,000) in respect of the company.

The fees for non-audit services in the table above primarily relate to advice for corporate and employee taxation. In addition to the amounts disclosed above the Group incurred non-audit services fees payable to the company's auditors in relation to its ongoing property developments of £9,890 (2004 - £92,000) (included within fixed assets) and £2,520 (2004 - £ Nil) (included in development property stocks).

Further amounts paid to the company's auditors of £Nil (2004 - £248,000) were included in the costs of raising bank loan finance.

NOTES TO THE ACCOUNTS

For the year ended 31 May 2005

5. Net finance charges

Interest payable and similar charges:	2005 £000's	2004 £000's
Bank loans and overdrafts	(14,957)	(4,160)
Other	(591)	(447)
Costs of raising short term finance	-	(942)
Costs of raising long term finance	(2,073)	(418)
	(17,621)	(5,967)
Finance costs capitalised	14,549	3,968
Total interest payable and similar charges	(3,072)	(1,999)
Interest receivable	1,601	105
	(1,471)	(1,894)

Of the interest capitalised, an amount of £14,549,000 (2004 - £3,462,000) is included in tangible fixed assets and £Nil (2004 - £506,000) is included in development property stocks.

6. Employees

The average number of persons employed by the Group during the year was:	2005 Number	2004 Number
Playing staff	61	72
Training staff	32	31
Administrative staff	158	135
Ground staff	42	33
	293	271

	£000's	£000's
Staff costs:		
Wages and salaries	56,606	61,322
Social security costs	5,837	6,204
Other pension costs	3,569	2,363
	66,012	69,889

NOTES TO THE ACCOUNTS

For the year ended 31 May 2005

7. Directors' emoluments

			2005				2004
	Salary/fees	Bonus	Benefits	Sub total	Pension	Total	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
PD Hill Wood	40	-	-	40	-	40	40
DB Dein	250	-	-	250	-	250	250
Sir Roger Gibbs	5	-	-	5	-	5	5
RCL Carr	5	-	-	5	-	5	5
Lady Nina Bracewell-Smith	-	-	-	-	-	-	-
KJ Friar OBE	198	198	20	416	110	526	527
DD Fiszman	5	-	-	5	-	5	5
KG Edelman	515	400	7	922	5	927	737
	1,018	598	27	1,643	115	1,758	1,569

The pension contribution for K.J. Friar OBE represents part of the deficit on the Football League Pension and Life Assurance Scheme and reflects the insufficiency of contributions required by the scheme in previous years.

8. Tax on profit on ordinary activities

	2005	2004
	£000's	£000's
UK Corporation tax charge at 30% (2004 – 30%)	3,764	1,632
Under/(over) provision in respect of prior years	2,450	(379)
Total current taxation	6,214	1,253
Deferred taxation (see note 18)		
Origination and reversal of timing differences	5,096	1,671
Over-provision in respect of prior years	(338)	(499)
Total tax on profit on ordinary activities	10,972	2,425

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2005	2004
Group profit on ordinary activities before tax	19,265	10,577
Tax on Group profit on ordinary activities before tax at standard UK corporation tax rate of 30% (2004 – 30%)	5,780	3,173
Effects of:		
Utilisation of tax losses	-	(114)
Enhanced tax reliefs	(4,363)	(2,479)
Capital allowances in excess of depreciation	(1,142)	(520)
Expenses not deductible for tax purposes	3,550	1,568
(Profit)/loss of joint venture not valued for tax purposes	(61)	4
Adjustments to tax charge in respect of prior years	2,450	(379)
Group current tax for the year	6,214	1,253

NOTES TO THE ACCOUNTS

For the year ended 31 May 2005

8. Tax on profit on ordinary activities (continued)

The Group tax charge in future years may be affected by:

- any change in the standard rate of UK taxation, currently 30%;
- the amount of capital investment which is expected to be maintained at a high level in the short term with the result that the Group expects to be able to claim capital allowances in excess of depreciation in future years;
- the legislation relating to taxation of profits on disposal of intangible assets, including player registrations, and rollover relief thereon.

9. Earnings per share

Earnings per share (basic and diluted) are based on attributable retained profit and are calculated based on the weighted average number of ordinary shares of the Company in issue - 59,700 shares (2004 - 58,947 shares).

10. Tangible fixed assets

	Assets in course of construction £000's	Freehold properties £000's	Leasehold properties £000's	Plant and equipment £000's	Total £000's
Group					
Cost					
At 1 June 2004	121,089	90,524	4,833	9,491	225,937
Additions	105,345	1,985	699	751	108,780
Disposals	-	-	-	(141)	(141)
Transfers	(60,106)	58,466	-	-	(1,640)
At 31 May 2005	166,328	150,975	5,532	10,101	332,936
Depreciation					
At 1 June 2004	-	7,504	1,001	7,817	16,322
Charge for the year	-	1,039	243	651	1,933
Disposals	-	-	-	(141)	(141)
At 31 May 2005	-	8,543	1,244	8,327	18,114
Net book value					
At 31 May 2005	166,328	142,432	4,288	1,774	314,822
At 31 May 2004	121,089	83,020	3,832	1,674	209,615

At 31 May 2005 the Group had contracted capital commitments of £119.1 million (2004 - £175.2 million).

Freehold property with a cost of £1.64 million was transferred to development property stocks.

NOTES TO THE ACCOUNTS

For the year ended 31 May 2005

11. Intangible fixed assets

	2005
Cost of player registrations	£000's
At 1 June 2004	122,117
Additions	9,617
Disposals	(41,169)
At 31 May 2005	90,565
Amortisation of player registrations	
At 1 June 2004	87,128
Charge for the year	14,993
Disposals	(40,539)
At 31 May 2005	61,582
Net book value	
At 31 May 2005	28,983
At 31 May 2004	34,989

The figures for cost of player registrations are historic cost figures for purchased players only. Accordingly, the net book amount of player registrations will not reflect, nor is it intended to, the current market value of these players nor does it take any account of players developed through the Group's youth system.

12. Investments

	Group	
Investment in joint venture	2005	2004
	£000's	£000's
Investments at cost	20,000	20,000
Accumulated share of loss of joint venture	(708)	(912)
Adjustment to eliminate unrealised profit on sale of intangible assets	(20,000)	(20,000)
Provision against share of losses of joint venture (note 18)	(708)	(912)

The joint venture represents an interest in Arsenal Broadband Limited, a company incorporated in Great Britain and engaged in running the official Arsenal Football Club internet portal. The Group owns all of the 20,000,001 Ordinary "A" shares of £1 each and the one "C" share of £1 issued by Arsenal Broadband and controls 50 per cent of the voting rights. The Group's share of the assets included in the audited balance sheet of Arsenal Broadband Limited for the year ended 31 May 2005 is as follows:

	2005	2004
	£000's	£000's
Fixed assets	70	-
Current assets	456	260
Liabilities	(1,234)	(1,172)
	(708)	(912)

NOTES TO THE ACCOUNTS

For the year ended 31 May 2005

12. Investments (continued)

Investments in subsidiary undertakings	**Company**
	£000's
Balance at 1 June 2004 and 31 May 2005	30,059

The Company has the following principal subsidiary companies (of which those marked * are indirectly held):

	Country of incorporation	**Proportion of shares owned**	**Principal activity**
Arsenal Football Club plc	Great Britain	100%	Professional football club
Ashburton Properties Limited*	Great Britain	100%	Property development
Ashburton Trading Limited	Great Britain	100%	Property development
Ashburton Trading (Sales) Limited*	Great Britain	100%	Property holding
Ashburton Properties (Northern Triangle) Limited*	Great Britain	100%	Property development
Highbury Holdings Limited	Great Britain	100%	Property holding
Gillespie (Jersey) Limited*	Jersey	100%	Property holding
Gillespie Holding Company (Jersey) Limited*	Jersey	100%	Property holding
Arsenal Overseas Limited*	Jersey	100%	Retail operations

13. Stocks - development properties

Properties are held for resale and are recorded at the lower of cost and net realisable value. The directors consider the net realisable value of development property stocks to be significantly greater than their book value.

14. Debtors

	Group		**Company**	
	2005	**2004**	**2005**	**2004**
	£000's	£000's	£000's	£000's
Amounts recoverable within one year:				
Trade debtors	15,230	16,186	-	-
Other debtors	1,289	4,035	-	-
Prepayments and accrued income	9,930	10,426	-	-
	26,449	30,647	-	-
Amounts recoverable in more than one year:				
Trade debtors	7,556	18,605	-	-
Amount due from group undertakings	-	-	40,921	40,610
Other debtors	156	92	-	-
Prepayments and accrued income	767	-	-	-
	8,479	18,697	40,921	40,610

Trade debtors of £19.6 million, of which £12.0 million is recoverable within one year, are supported by bank guarantees. Other debtors, recoverable within one year, include £0.9 million in respect of player transfers (2004 - £3.3 million).

NOTES TO THE ACCOUNTS

For the year ended 31 May 2005

15. Creditors: amounts falling due within one year

	Group		Company	
	2005	**2004**	**2005**	**2004**
	£000's	£000's	£000's	£000's
Bank loans and overdrafts - secured	19,572	23,715	-	-
Trade creditors	9,491	6,843	-	-
Corporation tax	9,363	3,590	-	-
Other tax and social security	3,447	2,925	-	-
Other creditors	5,623	11,885	-	-
Accruals and deferred income	59,748	54,579	-	-
	107,244	103,537	-	-

Other creditors, above and as disclosed in note 16, include £5.9 million (2004 - £13.1million) in respect of player transfers.

16. Creditors: amounts falling due after more than one year

	Group		Company	
	2005	**2004**	**2005**	**2004**
	£000's	£000's	£000's	£000's
Bank loans - secured	180,559	119,013	-	-
Debenture loans	24,829	24,543	10,392	10,105
Other creditors	1,329	2,584	-	-
Grants	4,250	-	-	-
Deferred income	27,739	2,439	-	-
	238,706	148,579	10,392	10,105
Debenture loans comprise:				
Par value of debentures plus accumulated interest	25,182	24,896	10,745	10,458
Costs of raising finance	(353)	(353)	(353)	(353)
	24,829	24,543	10,392	10,105

Under the issue terms debentures with a par value of £14,438,000 are repayable at par after 137 years and these debentures are interest free. Debentures with a par value of £10,224,000 are repayable at the option of the debenture holders in 23 years and carry cumulative compound interest at 2.75% per annum.

	Group	
	2005	**2004**
Bank loans comprise:	£000's	£000's
Bank loans	213,703	158,006
Costs of raising finance	(13,572)	(15,278)
	200,131	142,728
Due within one year	19,572	23,715
Due after more than one year	180,559	119,013
	200,131	142,728

NOTES TO THE ACCOUNTS

For the year ended 31 May 2005

16. Creditors: amounts falling due after more than one year (continued)

	Group	
	2005	**2004**
Bank loans are repayable as follows:	£000's	£000's
Bank loans		
Between one and two years	16,422	15,976
Between two and five years	51,130	40,512
After five years	125,959	76,933
	193,511	133,421
Within one year	20,192	24,585
Total bank loans	213,703	158,006

The Group's bank loans are secured by a mixture of legal mortgages and fixed charges on the freehold and leasehold property owned by the Group, by fixed charges over certain of the Group's trade debtors and the related bank guarantees, by fixed charges over £8.2 million of the Group's bank deposits, by fixed charges over the share capital of certain subsidiary companies and fixed and floating charges over the other assets of certain subsidiary companies.

17. Derivative financial instruments

The Group's financial instruments comprise mainly of cash and bank balances, bank loans, debentures and various items, such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations. The main risks arising from the Group's financial instruments are interest rate, liquidity and foreign currency risks and the Board reviews and agrees its policy for managing these risks.

The Group has entered into interest rate swaps the purpose of which is to minimise its exposure to interest rate risk. The Group does not hold or issue derivative financial instruments for speculative purposes.

The numerical disclosures in this note deal with financial assets and liabilities as defined in Financial Reporting Standard 13 "Derivatives and other financial instruments: Disclosures" ("FRS 13"). As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures (other than the currency disclosures).

Interest rate profile

After taking into account these interest rate swaps, the interest rate profile of the Group's financial liabilities at 31 May 2005 was as follows:

	Fixed rate 2005 £000's	Floating rate 2005 £000's	Interest free 2005 £000's	Total 2005 £000's	Weighted average fixed rate %	Weighted average period for which rate is fixed yrs
Bank loans	206,089	7,614	-	213,703	7.4	10
Debenture loans	10,744	-	14,438	25,182	2.8	23
	216,833	7,614	14,438	238,885		

NOTES TO THE ACCOUNTS

For the year ended 31 May 2005

17. Derivative financial instruments (continued)

The interest rate profile at 31 May 2004 for comparative purposes was:-

	Fixed rate 2005	Floating rate 2005	Interest free 2005	Total 2005	Weighted average fixed rate	Weighted average period for which rate is fixed
	£000's	£000's	£000's	£000's	%	yrs
Bank loans	142,187	15,819	-	158,006	7.2	10
Debenture loans	10,458	-	14,438	24,896	2.8	24
	152,645	15,819	14,438	182,902		

The interest rate on the floating rate element of bank loans is currently set at LIBOR plus 1.95% (2004 - 1.95%). Other than bank deposits, which earn interest at rates linked to LIBOR, the Group's financial assets do not earn interest

In addition to the above, the Group has commitments under letters of credit, as disclosed in note 26, of £5.5 million on which interest is currently paid at a fixed rate of 2%.

Borrowing facilities

The Group had undrawn committed borrowing facilities at the balance sheet date, in respect of which all conditions precedent had been met, as follows:

	2005	2004
	£000's	£000's
Expiring in:		
One year or less	25,000	25,000
Between two and five years	105,016	177,281

Fair values

The fair value of all financial instruments at 31 May 2004 and 2005, other than interest rate swaps as disclosed below, was not materially different from their book value.

	2005		2004	
	Book value	Fair value	Book value	Fair value
	£000's	£000's	£000's	£000's
Derivative financial instruments held to manage the Group's interest rate profile:				
Interest rate swaps	-	(14,621)	-	(734)

The fair values of interest rate swaps have been determined by reference to relevant market data and the discounted value of expected cash flows arising from the transactions.

Changes in the fair value of interest rate swaps, which are used as hedges, are not recognised in the financial statements until the hedged position matures.

NOTES TO THE ACCOUNTS

For the year ended 31 May 2005

17. Derivative financial instruments (continued)

An analysis of these unrecognised gains and losses is as follows:

	Group 2005 £000's	Group 2004 £000's
Unrecognised losses at start of year	(734)	-
Unrecognised losses arising in year	(13,887)	(734)
Unrecognised losses at end of year	(14,621)	(734)
Of which:		
Gains and losses expected to be recognised in 2006	-	-
Gains and losses expected to be recognised in 2007 or later	(14,621)	(734)

Foreign currency

Included in other debtors are amounts of £0.3 million (2004 - £1.0 million) denominated in Euros and £Nil million (2004 - £1.1 million) denominated in US dollars.

Included in prepayments and accrued income are amounts of £3.7 million (2004 - £6.7 million) denominated in Swiss Francs.

Included in other creditors are amounts of £3.7 million (2004 - £8.1 million) denominated in Euros and £0.2 million (2004 - £0.4 million) denominated in US dollars.

18. Provisions for liabilities and charges

	Group 2005 £000's	Group 2004 £000's
Share of losses of joint venture (see note 12)	708	912
Pensions provision (see note 28 (b))	645	982
Deferred taxation	7,047	2,289
Transfers	2,192	-
	10,592	4,183

The transfers provision relates to the probable additional transfer fees payable based on the players concerned achieving a specified number of appearances.
The deferred tax charge for the year was £4.76 million (see note 8) (2004 - £1.17 million).

	Group 2005 £000's	Group 2004 £000's
Deferred tax provision		
Deferred tax in respect of:		
Player registrations at start of year	127	176
Released to profit and loss account	(42)	(49)
Player registrations at end of year	85	127
Corporation tax deferred by accelerated capital allowances	3,347	1,966
Interest capitalised and other timing differences	4,132	592
Tax losses available	(517)	(396)
Total provision for deferred taxation	7,047	2,289

NOTES TO THE ACCOUNTS

For the year ended 31 May 2005

19. Called up share capital

	2005 Number	2004 Number
Authorised		
Ordinary shares of £1 each	62,217	62,217
Subscriber Ordinary shares of £1 each	2	2
Redeemable preference shares	49,998	49,998

Allotted, issued and fully paid	**£**	**£**
Subscriber Ordinary shares of £1	2	2
Ordinary shares of £1 each	62,216	58,947

The two Subscriber Ordinary shares carry no right to vote or to income and a deferred right to a return of capital paid up. On 8 March 2005 the company issued 3,269 Ordinary Shares of £1 each at £9,177 per share for a total cash consideration of £30 million.

20. Share premium

	Group £000's	Company £000's
Balance at 1 June 2004	-	-
Share issue in year	29,997	29,997
Balance at 31 May 2005	29,997	29,997

21. Other reserves

	Merger reserve £000's
Group	
Balance at 1 June 2004 and 31 May 2005	26,699

22. Profit and loss account

	Group Profit and loss account £000's	Company Profit and loss account £000's
Balance at 31 May 2004	57,605	60,505
Profit for the year	8,293	324
Balance at 31 May 2005	65,898	60,829

23. Reconciliation of movement in equity shareholders' funds

	Group £000's	Company £000's
Profit for the year	8,293	324
Share issue in year	30,000	30,000
Opening equity shareholders' funds	84,363	60,564
Closing equity shareholders' funds	122,656	90,888

NOTES TO THE ACCOUNTS

For the year ended 31 May 2005

24. Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2005 £000's	2004 £000's
Operating profit	17,638	10,256
Amortisation of player registrations	14,993	26,406
(Profit) on disposal of tangible fixed assets	(41)	(20)
Depreciation	1,933	1,922
(Increase)/decrease in stock	(8,125)	11,348
Decrease/(increase) in debtors	12,156	(24,086)
Increase in creditors	42,605	14,845
Net cash inflow from operating activities	81,159	40,671

(b) Reconciliation of net cash flow to movement in net debt

	2005 £000's	2004 £000's
Increase in cash for the period	45,626	32,832
Cash inflow from increase in debt	(55,529)	(113,833)
Change in net debt resulting from cash flows	(9,903)	(81,001)
Change in debt resulting from non cash changes	(2,160)	-
Net debt at start of year	(141,268)	(60,267)
Net debt at end of year	(153,331)	(141,268)

Bank balances, included in net debt of £184,000 (2004 - £31,000) are held in an employee benefit trust at the discretion of the trustees.

(c) Analysis of changes in net debt	At 1 June 2004 £000's	Non cash changes £000's	Cash flows £000's	At 31 May 2005 £000's
Cash at bank and in hand	26,003	-	45,626	71,629
	26,003	-	45,626	71,629
Debt due within one year – bank loans	(23,715)	-	4,143	(19,572)
Debt due after more than one year - bank loans	(119,013)	(1,874)	(59,672)	(180,559)
Debt due after more than one year - debenture subscriptions	(24,543)	(286)	-	(24,829)
Net debt	(141,268)	(2,160)	(9,903)	(153,331)

Non cash changes represent £1,874,000 in respect of the amortisation of costs of raising finance and £286,000 in respect of rolled up, unpaid debenture interest.

NOTES TO THE ACCOUNTS

For the year ended 31 May 2005

24. Notes to the consolidated cash flow statement (continued)

(d) Gross cash flows

	2005 £000's	2004 £000's
Player registrations:		
Payments for purchase of players	(14,598)	(16,063)
Receipts from sale of players	5,862	3,875
	(8,736)	(12,188)
Returns on investment and servicing of finance:		
Interest received	1,957	105
Finance charges paid	(16,029)	(5,439)
	(14,072)	(5,334)
Capital expenditure:		
Payments to acquire tangible fixed assets	(97,854)	(105, 092)
Receipts from sale of tangible fixed assets	41	25
	(97,813)	(105,067)
Financing:		
Repayment of borrowings	(18,572)	(40,181)
Increase in short term borrowings	-	25,766
Issue of debentures	-	10,458
Increase in long term borrowings	74,269	133,421
Costs of raising finance	(168)	(15,631)
Total debt financing	55,529	113,833
Issue of shares	30,000	-
	85,529	113,833

25. Leasing commitments

Commitments due under operating leases for the period to 31 May 2005 are in respect of:

	2005		2004	
	Land and buildings £000's	Other £000's	Land and buildings £000's	Other £000's
Leases expiring in:				
Within one year	-	196	-	9
Two to five years	-	3	-	85
Over five years	727	-	638	-
	727	199	638	94

NOTES TO THE ACCOUNTS

For the year ended 31 May 2005

26. Commitments and contingent liabilities

Under the conditions of certain transfer agreements in respect of players purchased, further transfer fees will be payable to the vendors in the event of the players concerned making a certain number of First Team appearances or in the event of certain other future events specified in the transfer agreements. In accordance with the Group's accounting policy for transfer fees, any additional fees which may be payable under these agreements, will be accounted for in the year that it becomes probable that the number of appearances will be achieved or the specified future events will occur. The maximum potential liability is £4.0 million (2004 - £7.4 million).

The Group has commitments outstanding under letters of credit, issued to guarantee its performance of certain future contractual obligations in relation to its new stadium and property development projects, of £5.5 million (2004 - £6.3 million). Provision has been made in the accounts for those costs incurred under these contractual obligations by the balance sheet date. When these liabilities are paid the commitment outstanding under letters of credit will be reduced accordingly.

In the event of a subsidiary company recording future profits over and above an agreed annual base figure, an element of grants received by that subsidiary company may be repayable to the provider of the grants, up to a maximum amount of the grants received.

HM Customs & Excise has issued an assessment for repayment of £0.7 million of input VAT previously recovered by a subsidiary company and which relates to payments made under the contractual arrangements between that subsidiary company and certain football agents. The subsidiary company considers the VAT concerned has been properly recovered and, accordingly, an appeal has been lodged against the assessment.

27. Related party transactions

The Group had the following transactions with Arsenal Broadband Limited in the year:-

	2005 Income/ (charge)	**2004 Income/ (charge)**
	£000's	£000's
Provision of office services	72	17
Merchandising and advertising sales	(897)	(134)

At 31 May 2005 the balance owing from the Group to Arsenal Broadband Limited was £702,000 (2004 - £326,000).

NOTES TO THE ACCOUNTS

For the year ended 31 May 2005

28. Pensions

a) *Defined contribution schemes*
Total contributions charged to the profit and loss account during the year amounted to £3,399,000 (2004 - £2,193,000).

b) *Defined benefit scheme*

	2005	**2004**
	£000's	£000's
Provision at start of year	982	1,319
Payments in year	(337)	(337)
Provision at end of year	645	982

The Group is advised of its share of the deficit in the Scheme. The most recent actuarial valuation of the Scheme was as at 31 August 2002 and indicated that the contribution required from the Group towards making good this deficit was £1.38 million at 1 April 2003 (the total deficit in the Scheme at this date was £13.9 million).

Additional contributions are being charged to the profit and loss account over the remaining service life of those Arsenal employees who are members of the Scheme. The amount attributable to employees who have already retired or who have left the Group has been charged in full to the profit and loss account.

The agreed revised deficit is being paid off over a period of 10 years commencing May 2003. Payments for the year amounted to £337,000 and the profit and loss account charge was £170,000 (2004 - £170,000).

29. Post balance sheet events

Since the end of the financial year a subsidiary company, Arsenal Football Club plc, has contracted for the purchase and sale of various players. The net income resulting from these transfers, taking into account the applicable levies, is £4.96 million. These transfers will be accounted for in the year ending 31 May 2006.

FIVE YEAR SUMMARY

	2001	2002	2003	2004	2005
Profit and Loss Account	£000's	£000's	£000's	£000's	£000's
Group Turnover	64,689	90,967	117,831	156,887	138,395
Operating profit before player trading and exceptional costs	6,505	7,292	25,319	36,162	32,631
Operating expenses - player registrations	(15,145)	(17,681)	(18,774)	(19,637)	(14,993)
Operating expenses - exceptional	(6,561)	(15,206)	(2,500)	(6,269)	-
Operating (loss)/profit	(15,201)	(25,595)	4,045	10,256	17,638
Share of results of joint venture	(168)	(512)	(162)	(67)	204
Profit on disposal of player registrations	25,121	2,873	1,370	2,282	2,894
Exceptional profits	20,000	-	-	-	-
Net interest	1,615	891	(721)	(1,894)	(1,471)
Profit / (loss) before tax	31,367	(22,343)	4,532	10,577	19,265
Profit / (loss) after tax	26,272	(20,562)	4,011	8,152	8,293
Earnings per share	£453.90	(£348.82)	£68.04	£138.29	£138.91
Balance Sheet					
Tangible fixed assets	42,024	46,430	124,770	209,615	314,822
Intangible fixed assets	45,111	53,060	39,396	34,989	28,983
Net current assets / (liabilities)	31,222	(4,595)	(66,014)	(7,479)	28,149
Long term creditors and provisions	(25,592)	(22,692)	(21,938)	(152,762)	249,298
Net assets	92,765	72,203	76,214	84,363	122,656
Share capital	59	59	59	59	62
Share premium	-	-	-	-	29,997
Reserves	92,706	72,144	76,155	84,304	92,597
Shareholders funds	92,765	72,203	76,214	84,363	122,656
Net assets per share	£1,573.10	£1,224.88	£1,292.92	£1431.17	£1,971.45
Playing record					
FA Premier League	2nd	Champions	2nd	Champions	2nd
FA Challenge Cup	Finalists	Winners	Winners	Semi-finalists	Winners
Europe	Quarter finals Champions League	2nd round Champions League	2nd round Champions League	Quarter finals Champions League	1st K/O Round Champions League

NOTICE OF ANNUAL GENERAL MEETING

ARSENAL HOLDINGS PLC

NOTICE IS HEREBY GIVEN that the fourth Annual General Meeting of the shareholders of Arsenal Holdings plc will be held at the Arsenal Stadium, Avenell Road, Highbury, London N5 1BU on Thursday 20 October 2005, at 12 noon when the following ordinary business will be transacted, viz:

1. To receive the Directors' Report and Statement of Accounts and the Auditors' Report thereon for the year ended 31 May 2005.

2. To re-elect P.D. Hill-Wood, a Director, who retires by rotation in accordance with article 88 of the articles of association.

3. To re-elect R.C.L. Carr, a Director, who retires by rotation in accordance with article 88 of the articles of association.

4. To re-elect Sir Roger Gibbs, a Director, who retires by rotation in accordance with article 88 of the articles of association.

5. To re-elect Lady Nina Bracewell-Smith, a Director, who was appointed to the Board on 15th April 2005 and who retires in accordance with article 86 of the articles of association.

6. To elect Deloitte & Touche LLP as Auditors for the ensuing year and authorise the Directors to fix their remuneration.

7. To transact any other ordinary business of the meeting.

By Order of the Board
D MILES
SECRETARY

Registered Office:
Arsenal Stadium
Avenell Road
Highbury
London. N5 1BU.

Note: Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on the members behalf. A proxy need not be a member of the Company. The form of proxy should be deposited at the Registered Office of the Company not later than 48 hours before the time appointed for the meeting. Where a form of proxy is signed under power of attorney or other authority, the form of proxy should be accompanied by the authorising instrument of a notarially certified copy. The sending of a form of proxy will not preclude members from attending and voting at the meeting in person, should they so wish.

AGM VOTING FORM

ARSENAL HOLDINGS PLC

I, the undersigned hereby appoint P D Hill-Wood, Esq., whom failing D B Dein Esq., whom failing Sir Roger Gibbs, whom failing R C L Carr Esq., whom failing D D Fiszman Esq., whom failing K J Friar OBE, whom failing K G Edelman Esq., whom failing Lady Nina Bracewell-Smith, as my proxy to vote for me on my behalf at the Annual General Meeting of the Company to be held on Thursday 20 October 2005, and at any adjournment thereof.

Dated this__________________________ day of __________________________ 2005

Signature____

Name (in block capitals)____

Address____

CUT HERE

Resolution No.1	**FOR* / AGAINST***
Resolution No.2	**FOR* / AGAINST***
Resolution No.3	**FOR* / AGAINST***
Resolution No.4	**FOR* / AGAINST***
Resolution No.5	**FOR* / AGAINST***
Resolution No.6	**FOR* / AGAINST***
Resolution No.7	**FOR* / AGAINST***

**Delete as appropriate*

Unless otherwise instructed the proxy will vote as he thinks fit.

This form DOES NOT permit admission to the Annual General Meeting and must be deposited at the Registered Office of the Company not less than 48 hours prior to the time of the meeting.

SECOND FOLD

BUSINESS REPLY SERVICE
Licence No BS LON 11449

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Arsenal Holdings PLC
Arsenal Stadium
Highbury
LONDON
N5 1BR

FIRST FOLD

THIRD FOLD AND TUCK IN