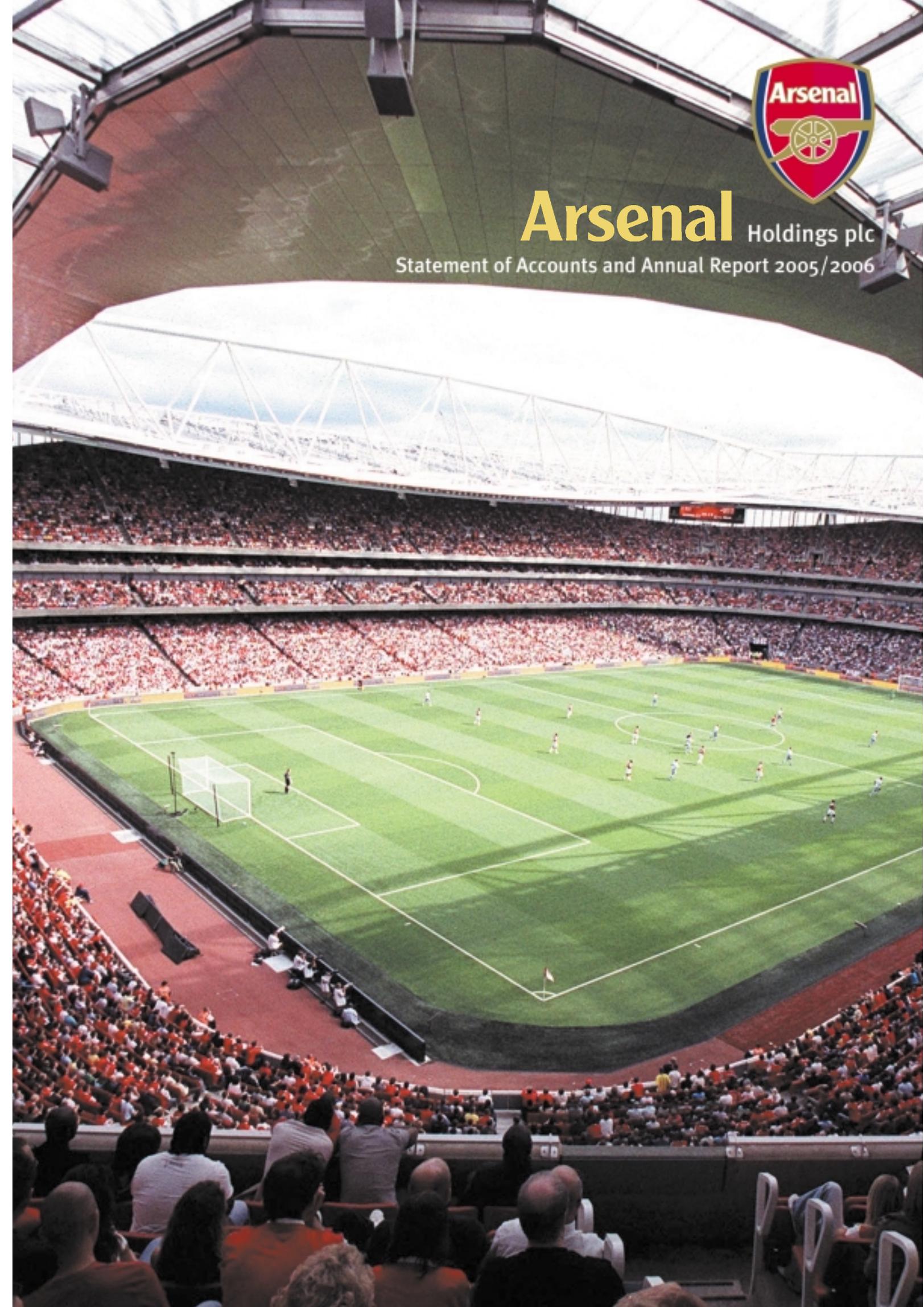




Arsenal

Holdings plc

Statement of Accounts and Annual Report 2005/2006









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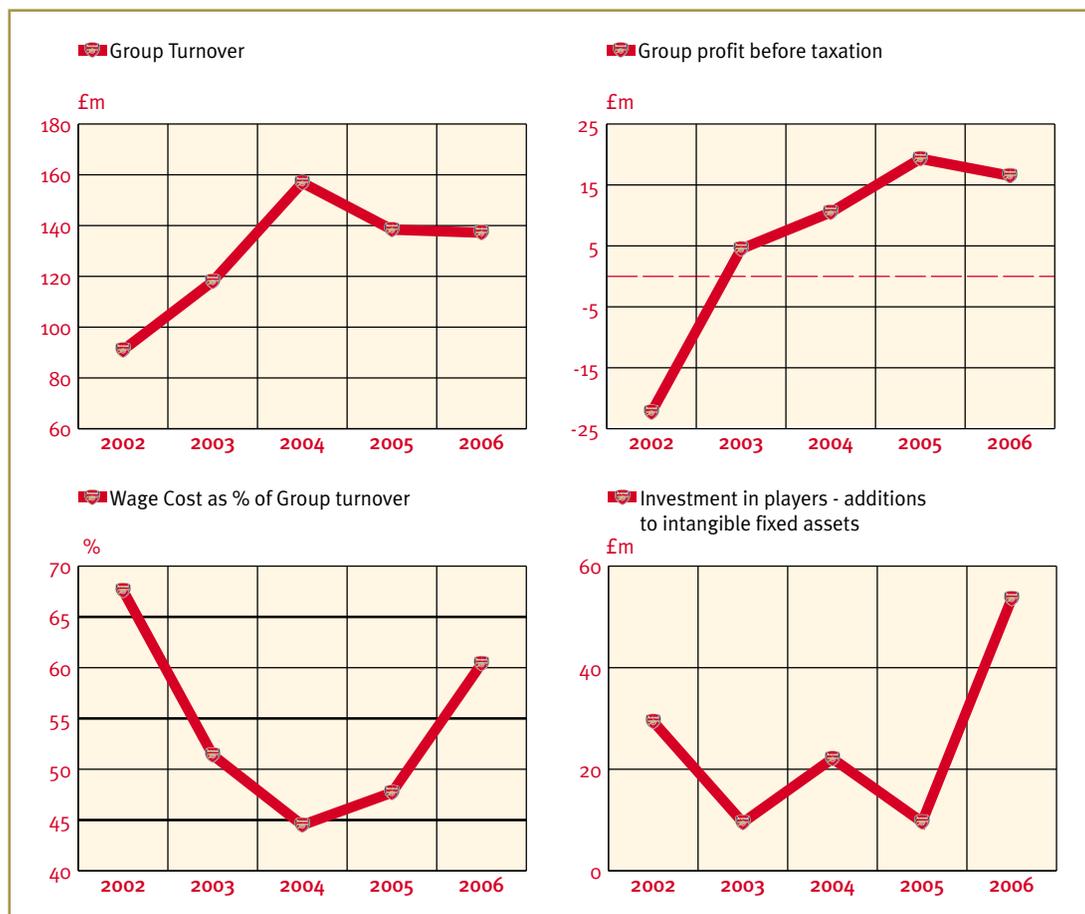




FINANCIAL HIGHLIGHTS



	2006	2005
Group turnover £m	137.2	138.4
Group operating profit before player trading and exceptional costs £m	11.3	32.6
Profit before taxation £m	15.9	19.3
Earnings per share £	127.01	138.91





DIRECTORS, OFFICERS AND ADVISERS



LIFE VICE PRESIDENT

C E B L Carr

DIRECTORS

P.D. Hill-Wood
Lady Nina Bracewell-Smith
R.C.L. Carr
D.B. Dein
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D.D. Fizman
K.J. Friar OBE
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CHAIRMAN'S REPORT

I am delighted to begin this year's report with a review of what has, once again, been a very busy and historic year for the Arsenal Group.

The 2005/06 season saw the team accomplish a significant first in the Club's history by reaching the final of Europe's premier club competition – the UEFA Champions League. Although we narrowly missed out on winning this prestigious trophy in Paris, the European campaign thrilled us all and we can be very proud of our players for their achievements in the competition.

Our fourth place finish in the Barclays Premiership assured the Club of a place in the third Qualifying Round of the UEFA Champions League for 2006/07, which we have now successfully won thus securing a place in the group phase for a ninth consecutive season.

The 2005/06 season will live in the memory of everyone associated with Arsenal Football Club being the season we said farewell to Highbury, the Club's home for the past 93 years. Sunday, 7 May 2006 saw the last match at our famous stadium, end in a 4-2 celebratory victory over Wigan Athletic and a spectacular closing ceremony.

The last ever event at Highbury - the Highbury Auction - was held at the end of July, when over 600 items from the stadium were auctioned in front of thousands of bidders in the East Stand. Many items of memorabilia owned by the Club will be transferred to Emirates Stadium, but we felt it appropriate to offer supporters the chance to own their own piece of Highbury's history. A percentage of all proceeds from the Highbury Auction were donated to charities supported by Arsenal, including The David Rocastle Trust.

Leaving Highbury was very emotional for everyone involved with the Club, but we can now look forward to an exciting new chapter in Arsenal's history at our new home - Emirates Stadium.

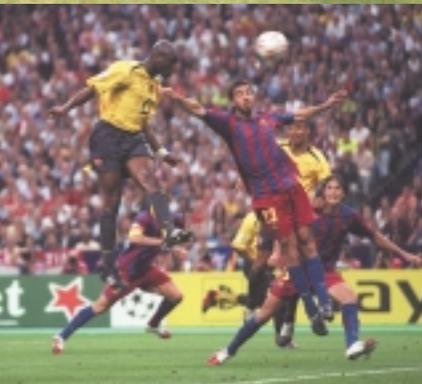
Our main contractor, Sir Robert McAlpine, completed the construction and fit-out work at Emirates Stadium on schedule and the stadium achieved practical completion in mid-July. The Club immediately staged three very successful 'ramp-up' events in order to confirm receipt of the relevant safety certificates and also to fine tune the detailed operating procedures for Emirates Stadium. These events were a Shareholders' Lunch, a 'Members' Day' - attended by 20,000 supporters who watched a first team training session and a testimonial match for Dennis Bergkamp, which gave 54,000 supporters an opportunity to celebrate the wonderful career of a true Arsenal legend as well as experience Emirates Stadium for the first time.

I would like to take this opportunity to recognise the fantastic contribution by all members of our project team working on Emirates Stadium. The professionalism and dedication from the team towards the project has been first class and the completion of our wonderful new stadium on time is a credit to everyone involved in the project. Page 15 of this report details the progress made at Emirates Stadium over the course of the year.

In July we also confirmed details of an issue of £210 million of fixed rate and £50 million of floating rate bonds and the proceeds of this bond issue have been used to re-finance the project finance bank loans used to fund the Emirates Stadium development. Completion of the re-financing secures the funding arrangements for Emirates Stadium for the long term and provides a significant reduction in the Group's annual debt service costs.

The investment we have made in Emirates Stadium clearly demonstrates our commitment to maintaining and building on Arsenal's position as one of the leading clubs in European football. This commitment to the Club's future was further confirmed in May when we announced that, Club captain, Thierry





CHAIRMAN'S REPORT

Henry had agreed a new long-term contract. Thierry is already Arsenal's all-time leading goalscorer and is widely and rightly acknowledged to be one of the very best players in the world. We are delighted that he will be leading the team out at Emirates Stadium.

On the field

Although the team's League performances in the 2005/06 were not as consistent as in recent years, a fourth place finish in the Premiership has ensured qualification for the UEFA Champions League for the ninth straight season, which is a tremendous achievement. Progress into the Group Stage of the 2006/07 competition was confirmed in August by an impressive win over Dinamo Zagreb in the final pre-qualification round.

The Champions League undoubtedly provided the highlight of the 2005/06 season. The team progressed through the group stage in excellent style with wins in its first five matches, including all three away games. Progress through the knock-out stages featured thrilling victories over Real Madrid, Juventus and Villarreal. The campaign featured many memorable moments, from Thierry Henry's winning goal in the Bernabeu through to Jens Lehmann's last minute penalty save in the semi-final, and saw the team establish a remarkable new record, of ten games, for consecutive European matches without conceding a goal. In the Final in Paris, the team showed wonderful spirit and came so close to securing an historic win before two late goals resulted in Barcelona emerging as 2-1 winners.

During the course of the season, Arsène Wenger once again used suitable opportunities to integrate some of the Club's younger players into the first team. Arsène has a remarkable ability to identify and integrate talented young players and it is exciting for us to see players such as Cesc Fabregas, Philippe

Senderos and Emmanuel Eboue now fully established as first team regulars.

The Carling Cup was again used to give many of our younger players invaluable experience, and they showed their great potential by reaching the semi-final stage of the competition. In the FA Cup, the Club were unfortunately eliminated from the competition at the Fourth Round stage by Bolton Wanderers - last season was only the second time in the past nine years that Arsenal have failed to reach the FA Cup semi-finals.

A grand total of 16 players from the Arsenal first team squad were selected to represent their respective countries in the 2006 FIFA World Cup. This was the highest representation of any single club and indicates the potential and strength in depth of the squad that Arsène Wenger is assembling at the Club.

The reserve team enjoyed a very consistent season. After spending most of the season at the top of the FA Premier Reserve League – South, Neil Banfield's team finished in the top three for the second consecutive season, a very commendable result.

The Arsenal Ladies enjoyed another very successful year, under the guidance of Vic Akers, winning their third League and FA Cup 'double' in the last six years. Unfortunately our Ladies could not repeat the European success of the men being eliminated at the Quarter Final stage of the Women's UEFA Cup.

Pages 17 to 20 provide a full review for Arsenal's first Team, reserves, youth and ladies teams in the 2005/06 season.

PLAYER TRANSFERS

During the close season, Czech Republic international midfielder Tomas Rosicky joined the Club from Bundesliga side Borussia Dortmund.





CHAIRMAN'S REPORT

During the summer we also completed the permanent transfer of Alexandre Song from French side Bastia. Alexandre had been on loan at the Club for the entire 2005/06 season, in which time he made nine first team appearances.

On a busy closing day to the summer transfer window the Club signed three new players to the first team squad. Established French international defender William Gallas joined from Chelsea, where he had made over 200 appearances and won two Premiership titles. The Club also signed Brazilian international Julio Baptista from Real Madrid. 24 year-old Baptista can play in either midfield or as a forward, and had been a transfer target for the Club for some time. Finally, young midfielder Denilson was signed from Sao Paulo; Denilson is currently the captain of the Brazilian national under-19 side.

The Club extends a warm welcome to Tomas, Alexandre, William, Julio and Denilson and we wish them the best of luck in their Arsenal careers.

The close season saw the departure of Robert Pires to Spanish club Villarreal. Robert made a magnificent contribution during his six years with the Club, being an integral part in the sides that won two Premiership titles and three FA Cups. Robert scored 84 goals in 284 appearances for the Club, won the 2002 PFA Player of the Year and scored the winning goal in the 2003 FA Cup Final. We would like to thank Robert for his contribution to Arsenal and wish him the best of luck for his future.

Another leaver in the summer was Sol Campbell who decided to seek a fresh footballing challenge. Sol arrived at the Club in 2001 and made 197 appearances for Arsenal, scoring 11 goals. He was a key figure in the team's success and during his five seasons the Club won five major trophies. Sol made a tremendous contribution to the team and his commitment, stature and strength of character

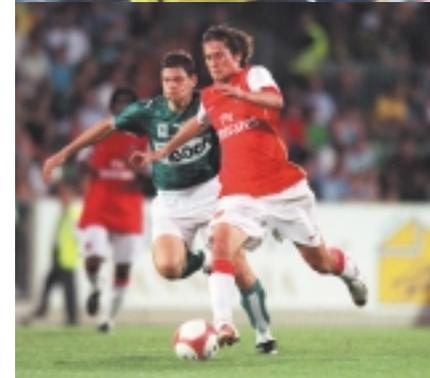
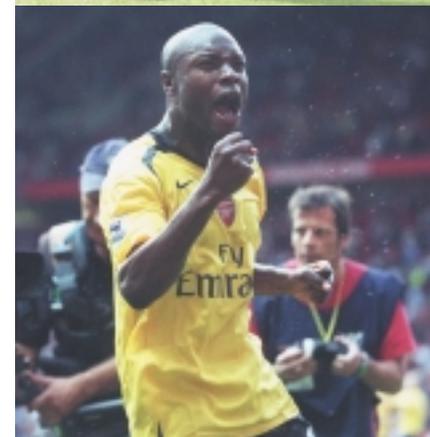
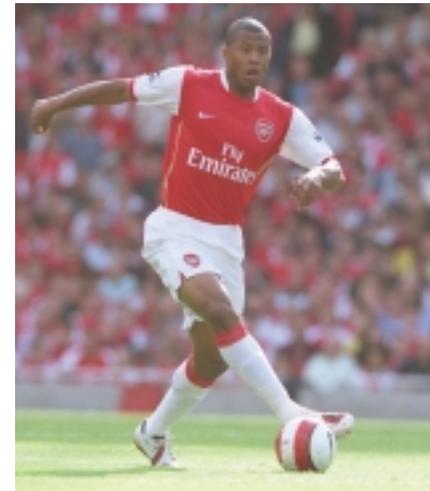
provided an excellent example to some of the younger players who progressed playing alongside him. We wish him well for his future at Portsmouth.

As part of the same transfer transactions which brought William Gallas and Julio Baptista to the Club, Ashley Cole and Jose Antonio Reyes left to join Chelsea and Real Madrid respectively. Ashley joined Arsenal as a trainee in 1997 and made a total of 228 first team appearances, Ashley was an important member of Arsenal sides which won two Premiership titles and three FA Cups and, in recent seasons, has also become a key figure for the England national team. Jose Antonio joined Arsenal from Sevilla in January 2004 and made a significant contribution to the Club's Premiership title win in 2004 and its FA Cup victory in 2005. The Club would like to take this opportunity to thank both Ashley and Jose Antonio for the roles they have played in Arsenal's successes and to wish them well for the future.

Other first team players departing the Club during the summer were Pascal Cygan and Ryan Smith who have joined Villarreal and Derby County respectively. We thank Pascal and Ryan for their contributions during their time with Arsenal Football Club.

After serving Arsenal Football Club for eleven seasons, Dennis Bergkamp decided to retire from professional football at the end of the 2005/06 season. During his time with the Club, Dennis made 423 first team appearances, scoring 120 goals and creating many, many more for his team-mates. Dennis helped the Club win three League Championships and four FA Cups, and was also both the PFA and FWA Player of the Year in 1998.

A fitting finale to Dennis' career was his Testimonial Match, which was also the first match ever to be played at Emirates Stadium. It is a truly appropriate tribute to Dennis Bergkamp that his last Arsenal match was such a significant match in the history of the Club.





CHAIRMAN'S REPORT

Dennis will be sorely missed both on and off the pitch, and we thank him for all the wonderful moments of footballing magic that he produced during his time at the Club.

Commercial Partners

Arsenal's commercial partnerships have continued to develop over the past year. The Group continues to build on its long-term relationships with Emirates, who have now taken on the role of Club sponsor, Nike and Delaware North and has also welcomed the renewal and introduction of a number of new partnerships.

Sponsors who will be continuing much-valued partnerships with the Club are O2, as the Club's official mobile partner, and Lucozade. In addition, we welcome a number of new commercial partners to the Club: LG Mobile begins as the Club's new official mobile handset partner; EDF Energy will be the Club's official energy partner and will be servicing all of the energy requirements for Emirates Stadium; Sony Electronics has signed-up as the Club's supplier of audiovisual equipment, which includes the provision of our match-day high definition LCD screens; the Israeli Tourist Board; and Scottish Courage joins us as the official beer partner for Emirates Stadium.

We also have a number of highly valued long-term supplier relationships, including Coca Cola and Thomas Cook, all of whom are integrated into the operational running of the Club and we thank these suppliers for their ongoing commitment and support.

Lastly, we would like to thank our departing sponsors, Samsung Mobile and Budweiser, for their contribution to Arsenal over recent years.

Charity of the Season

After the success of the Charity of the Season partnership with ChildLine, the Club announced that The David Rocastle Trust would be the Charity of the Season for 2005/06.

Page 21 of this report provides further details in respect of the Club's partnership with The David Rocastle Trust throughout the season.

Financial Review

Profits after tax for the year were £7.9 million compared to £8.3 million for the previous year.

The year saw a record level of turnover for the football club, however, this was offset by increases in employment and other operational costs and the fact that there were no significant sales in our property development business, resulted in reduced operating profits before player trading of £11.3 million (2005 - £32.6 million). These reduced operating profits were balanced by significant gains on the sale of players – player trading resulted in a profit of £3.9 million compared with a loss of £12.1 million in the previous year – and net interest income of £0.2 million as compared to a net charge of £1.5 million previously.

The contributions of the football and property development business segments to the Group's results were as follows:

	2006 £m	2005 £m
Football		
Turnover	132.1	115.1
Operating profit before player trading	11.0	20.2
Property development		
Turnover	5.1	23.3
Operating profit	0.3	12.4
Group		
Turnover	137.2	138.4
Operating profit before player trading	11.3	32.6

The sale of the property development site at Drayton Park which we originally expected to include in the results for 2005/06 did not



CHAIRMAN'S REPORT

actually complete until the end of June 2006 and the sales revenue of some £23.5 million will now be included in the 2006/07 results. In addition to this sale we are progressing assembly of the remaining land interests for the development site at Queensland Road and after a considerable amount of planning and other preliminary works for the Highbury Square project we began construction of this project in early August. As a result of this expenditure development property stocks have increased to £44.4 million (2005 - £28.1 million).

Although player trading resulted in a profit for the year this does not reflect the investment made in the year in new players, the costs of which will be amortised over the contract terms of those players. Additions to player registrations amounted to a £53.6 million, a record level for the club, with a net cash outlay of £11.8 million for the year.

Capital expenditure for the year was in excess of £137 million, inclusive of interest capitalised on the directly related borrowings, as the Group progressed the final stages of the construction and fit out works at Emirates Stadium and, to a lesser extent in financial terms, the construction of new offices on Drayton Park.

As a result of these investments in our new stadium, player assets and property development stocks the Group's cash reserves fell by some £36 million to £35.6 million and the Group's net debt increased to £262 million (2005 - £153 million).

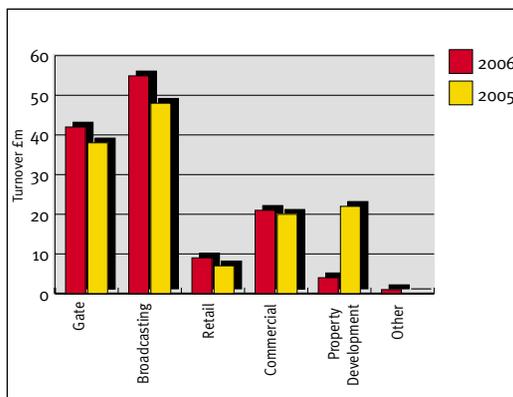
In July we were delighted to announce the successful completion of a £260 million bond issue which has re-financed the project finance bank loans which the Group had used to fund the development of Emirates Stadium. The bond issue is strongly beneficial to the Group as it secures the financing arrangements for Emirates Stadium for the long term and, by extending the

repayment term of the related debt finance to 25 years and reducing the annual debt service costs by approximately 2%, frees up significantly more of the Group's future cash-flow for investment in the development of the team.

At the same time as completing the bond issue, the Group has agreed a £125 million development bank loan facility to be used in funding the planned development of Highbury Square and £70 million of facilities for Arsenal Football Club.

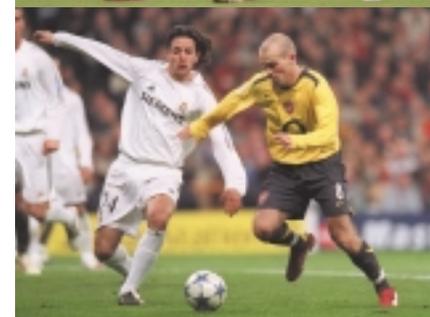
Income

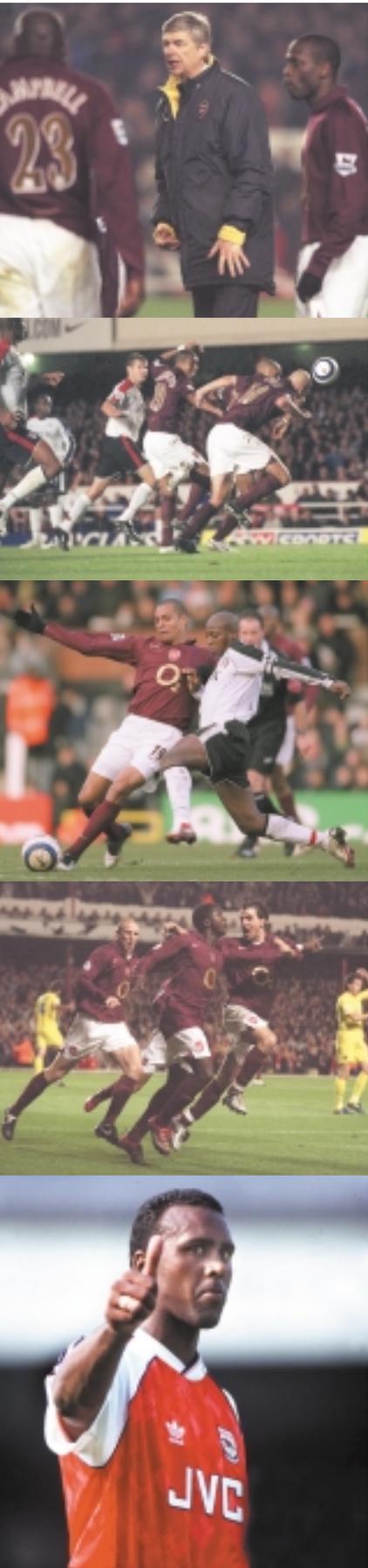
Group turnover for the year was £137.2 million.



The most significant changes to Group turnover were firstly increased income derived from the team's performance in the Champions League and, secondly, a lower level of activity in the property development business.

Champions League pool and performance revenues (which are included within broadcasting) were £24.2 million (2005 - £15.9 million) and gate revenues from participation in the competition were £8.4 million (2005 - £4.2 million). The property development business completed the sale of one of its smaller remaining sites and added some additional revenues from sites sold in previous years. Turnover from these sales amounted to £5.1 million in total as compared to £23.3





CHAIRMAN'S REPORT

million in the previous year when two larger site sales were completed.

Other changes in turnover were a record £10.2 million from our retail business (2005 - £8.4 million), where sales benefited from the popularity of the commemorative redcurrant shirt, and increased commercial revenue of £22.8 million (2005 - £20.7 million) which benefited from the catering and hospitality revenues associated with the Final Salute season at Highbury and from an additional royalty payment from Nike triggered by the level of worldwide sales of Arsenal branded merchandise.

Operating expenses (excluding player trading)

The group's operating expenses (excluding player trading) rose to £125.8 million from £105.8 million for the comparative period and there are four main factors underlying this increase.

Firstly, costs which are linked directly to income streams, such as the direct costs of our retail business, have risen in line with our income. Secondly, we have incurred increases in our operational costs as we have progressed and completed our preparations for the move to Emirates Stadium. Thirdly, a decrease in property development costs which reflects the reduced activity for the year. Finally, a significant increase in the wage cost for the year, for which there are a number of reasons including improved and extended contracts for a number of players who have either established themselves as members of our first team squad or who were already key members of the squad, bonuses for the players and management team associated with the Champions League performance and, lastly, the inclusion of certain one-off costs relating to the pension or contract arrangements of certain individual employees.

Player trading

A profit of £19.2 million on sale of player registrations (2005 - £2.9 million) means that overall player trading made a positive contribution to the Group's pre tax profits of £3.9 million for the year as compared to a cost in the previous year of £12.1 million.

The most significant sale was that of Patrick Vieira to Juventus but the figures also include amounts from the sales of Quincy Owusu-Abeyie and David Bentley together with appearance fees deriving from the sales in prior years of Jermaine Pennant, Gio van Bronckhorst and Moritz Volz.

Cash flow and treasury

Cash inflow from operations amounted to some £41.1 million as compared to £81 million for the previous year with the fall being mainly as a consequence of the Group's reduced operating profits, referred to above, and expenditure of £18.1 million on property development stocks. Table 1 shows how this cash inflow from operations was used in the year.

TABLE 1	£m
Cash from operations	41.1
Net cash from new bank loans	89.7
Repayment of bank loans	(19.3)
Net spend on player registrations	(11.8)
Net interest payments	(14.6)
Investment in fixed assets	(117.7)
Taxation paid	(3.4)
Decrease in year end cash reserves	(36.0)

The majority of interest cost relates to the funding of the Emirates Stadium construction and this interest is capitalised; the accounting treatment for interest will change for 2006/07 as the stadium has been completed and interest costs post-completion will be expensed to the profit and loss account.





CHAIRMAN'S REPORT

TABLE 2

	Emirates Stadium Financing £m	Property Development Financing £m	Debenture Loans £m	Cash Reserves £m
Start of year	(165.6)	(48.1)	(25.2)	71.6
Movement in year	(88.7)	18.4	(0.3)	(36.0)
End of year	<u>(254.3)</u>	<u>(29.7)</u>	<u>(25.5)</u>	<u>35.6</u>

Loan repayments related mainly to a property development facility made to Ashburton Trading Limited and reduced the outstanding balance to £6 million; since the year end this balance has been fully repaid in accordance with the terms of the loan agreement.

Table 2 gives an overall picture of the Group's financing structure at 31 May 2006. As referred to above both the Emirates Stadium loans (£254.3 million) and Highbury Square loans (£23.7 million) have been refinanced since the year end and the section below gives more details on the term and costs of the refinanced debts.

Refinancing

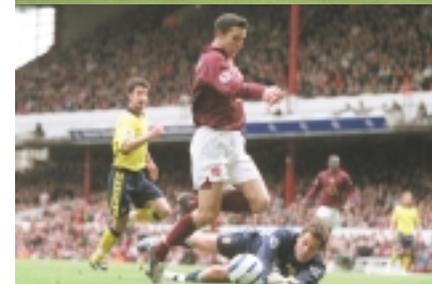
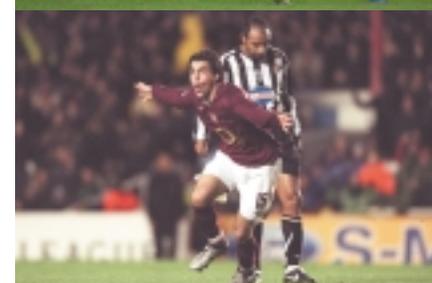
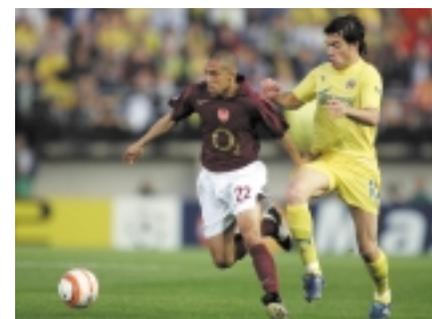
The bond issue which was completed by a new subsidiary company, Arsenal Securities plc, in July 2006 comprised of £210 million of fixed rate bonds and £50 million of floating rate bonds, both with a term of 25 years.

The bonds are guaranteed as to scheduled payments of principal and interest by Ambac Assurance UK Limited. After taking account of the interest rate swaps the Group has entered into to fix the LIBOR element of the floating rate bond costs and inclusive of margin and guarantee fees payable to Ambac, the interest rate for the fixed rate

bonds is 5.79% and the rate for the floating rate bonds is 6.6%. The table below shows the impact of the refinance on the Group's debt finance balances.

	Weighted average repayment term	Weighted average interest rate %
Group's debt as under terms of the refinance	23	6.0
Group's debt as under terms of the original project finance	10	8.0

As I mentioned in the interim report the refinancing of the stadium loans gives rise to two accounting adjustments which will impact the Group's results for the year ending 31 May 2007. Firstly, the un-amortised costs of raising the original stadium finance bank loans (which were being written off over the term of those loans) will be written-off immediately giving rise to an exceptional charge of £11.2 million. Secondly, the interest rate swaps taken out to fix the rate of interest applicable to the project finance bank loans have been terminated giving rise to an exceptional charge of £7.8 million.





CHAIRMAN'S REPORT

The bank loan arranged for the Highbury Square development is a £125 million facility with a 38 month term at an interest rate based on LIBOR plus a margin, initially set at 1.5%, which decreases as the level of pre-sales of the residential units increases. Interest rate swaps have been entered into which fix the LIBOR element of the loan costs at 5.17% for 80% of the projected drawings on the facility.

Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's long term performance. These risks and uncertainties are monitored by the Board on a regular basis.

Football

The Group's income is affected by the performance and popularity of the first team. Significant sources of revenue are derived from strong performances in the FAPL, FA Cup and UEFA Champions League (or UEFA Cup) and the level of income will vary dependent upon the team's participation and performance in these competitions. A significant amount of the Group's income is derived from ticket sales to individual and corporate supporters who attend matches involving the first team at Emirates Stadium and elsewhere. The level of attendance may be influenced by a number of factors including the level of success of the team, admission prices, broadcasting coverage and general economic conditions. Demand for tickets is currently very high and all season tickets, including approximately 7,000 premium Club Level seats and 150 executive boxes have been sold out for the 2006/07 season.

The first team's success is significantly influenced by the performance of members of the playing staff and the performance of the football management team and, accordingly, the ability to attract and retain the highest

quality coaching and playing staff is important to the Group's business prospects. The Group insures the members of its first team squad but such insurances may not be sufficient to mitigate all financial loss, such as fees from a potential transfer, in the event of a serious injury. The Group enters into employment contracts with each of its key personnel with a view to securing their services for the term of the contract. However, the Group operates in a highly competitive market in both domestic and European competition and retention of personnel cannot be guaranteed. In addition, the activities of the Group's main competitors can determine trends for market rates for transfers and wages that the Group may be required to follow in order to maintain the strength of its first team squad.

The Group's income, which is currently significantly greater than that of the majority of its competitors, and its policy of continual investment in the playing staff by way of both transfers and wages provides a platform for a virtuous circle of continued on-field success and growth in the Club's support and revenues.

The Club is regulated by the rules of the FA, FAPL, UEFA and FIFA. Any change to FA, FAPL, UEFA and FIFA regulations in future could have an impact on the Group as the regulations cover areas such as: the format of competitions, the division of broadcasting income, the eligibility of players and the operation of the transfer market. The Group monitors its compliance with all applicable rules and regulations on a continuous basis and also monitors and considers the impact of any potential changes.

Commercial relationships

The Group derives a significant amount of revenue from sponsorship and other commercial relationships. The Group aims to enter into long term arrangements with its



CHAIRMAN'S REPORT

key commercial partners thus securing certainty over the main components of its commercial income in the medium term. The Group's most important commercial contracts are: naming rights and shirt sponsorship contracts with Emirates Airline which expire in 2021 and 2014 respectively, a kit sponsorship contract with Nike which expires in 2011 and a catering contract with Delaware North which expires in 2026.

Broadcasting and certain other revenues are derived from contracts which are currently centrally negotiated by the FAPL and, in respect of European competition, by UEFA ; the Group does not have any direct influence, alone, on the outcome of the relevant contract negotiations. The FAPL has recently confirmed the details of its main broadcasting contracts through to the end of season 2009/10 at a significant premium to the current contract.

Foreign exchange and treasury

The Group enters into a number of transactions, relating mainly to its participation in European competition and player transfers, which create exposure to movements in foreign exchange. The Group monitors this foreign exchange exposure on a continuous basis and has facilities in place to hedge any significant exposure in its currency receivables and payables.

The Group's policy is to eliminate as far as possible all of the interest rate risk which attaches to its outstanding debt finance balances. Where debt balances are subject to floating rates of interest the Group enters into interest rate swaps which serve to fix the rate of interest.

Where income from commercial contracts or other material transactions, such as player transfers, is receivable on an instalment basis the Group will usually seek to obtain an appropriate bank guarantee.

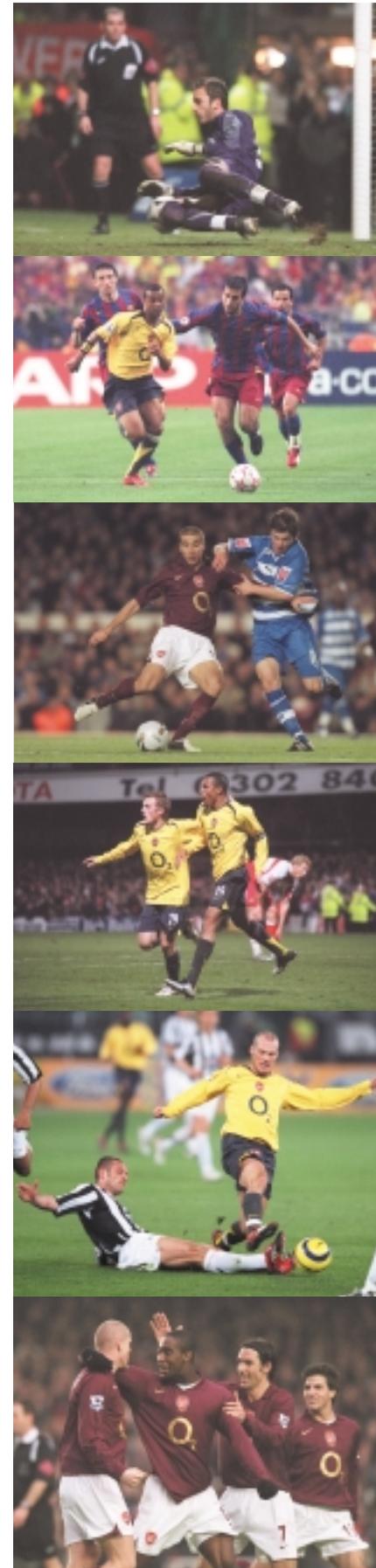
Prospects

The start of a new season is always exciting but particularly so this year because of the on schedule opening of Emirates Stadium. It is clear that all our hard work over the last few years, including a particularly hectic last few months, has paid off to provide a simply magnificent playing arena for the team and unrivalled facilities for our supporters.

Emirates Stadium will provide the Group with substantially increased match day revenues for 2006/07 and we also expect to see revenue growth from our retail division with the opening of "The Armoury" mega-store at the stadium and "All Arsenal" store on Drayton Park.

A number of other events have already occurred since the year end which will impact on the Group's profitability for 2006/07. We have completed the sale of the Drayton Park property development site for a consideration of some £23.5 million and the auction of Highbury memorabilia has been a great success generating proceeds in excess of £0.5 million; the majority of assets sold in the auction had no book value having already been fully depreciated. As referred to in greater detail above we have successfully completed the refinancing of all of the long term debt associated with the Emirates Stadium development and, as a consequence, significantly reduced our annual debt service costs; however, an exceptional charge against 2006/07 profits of approximately £19 million will arise as a result of the write off of the unamortised costs of the original loans and cancellation of the interest rate swap in place for those loans.

Construction work for the Highbury Square development has now begun in earnest and we look forward to our contractor, Sir Robert McAlpine, delivering the Highbury Square project as smoothly as they accomplished





CHAIRMAN'S REPORT



the development of Emirates Stadium. Over the coming year our sales and marketing team will continue to progress the pre-sale of Highbury Square residential units.

On the field the team has started the season with an important success in winning through its qualification round of the Champions League so that Arsenal will now participate in the group phase of the competition for a ninth consecutive season.

With the opening of Emirates Stadium, Arsenal is starting a new chapter in its history and we look forward to it being as memorable and successful as the 93 years the Club spent at Highbury.

In closing, I would once again like to thank my fellow directors, our management team and staff and all of the Emirates Stadium

project team. Arsenal's new home is a superb achievement and I think everyone involved should be immensely proud of the parts they have played in its development. The stadium is a testament to their hard work, commitment and professionalism not just over the last year but over the entire life of the project. Finally, I would like to thank all of our shareholders, supporters and sponsors for your continued and valued support; we look forward to seeing all of you at Emirates Stadium over the coming season.

P D Hill-Wood
Chairman
19 September 2006





EMIRATES STADIUM

During the 2005/06 season, construction at Emirates Stadium continued to run comfortably ahead of schedule, with the fantastic new 60,000 capacity stadium completed in time for the start of the 2006/07 season.

Externally, construction during the year included finishes to the roof and glazing, as well as the installation of 'Emirates Stadium' lettering and logos around the outside of the stadium. The 'podium' was complete and work on the new flagship mega-store, 'The Armoury', enabled it to open for the launch of the new 2006/07 home kit on July 18th.

Internally, work has focused on final finishes, painting, carpeting and fitting out areas such as Club Level, the executive boxes and Diamond Club, as well as testing the mechanical and electrical services. The fit-out works have included installation and commissioning of the two giant screens, LED perimeter advertising boards and PA system. Kitchens, concessions and bars were all installed, along with over 12,000 light fittings around the stadium.

Newcomer Abou Diaby secured the first of the 60,000 seats that were installed at Emirates Stadium in March 2006. Placing the first seat onto the supporting steel framework, the French midfielder started the installation process for the seats, which have been named the 'Arsenal Seat' and are all upholstered – a first for a football stadium in the UK.

Construction on state of the art pitch heating and drainage systems commenced in January, with the first pitch seeding and cut taking place in May.

As well as the construction, other aspects of the stadium project also progressed very well over the year with the sale of all the 150 executive boxes and 7,000 premium seats available at Club Level. The hospitality areas at Emirates Stadium offer outstanding facilities and, outside of match days, will also provide an attractive venue for conferences and banqueting.

The regenerative aspects of the project also progressed over the year, with the opening of the first housing development in December 2005 by Ashley Cole. The planned residential developments throughout the London Borough of Islington will eventually provide the area with over 2,500 new homes, including much affordable accommodation.

Throughout the final year of construction, the Club organised a number of community initiatives associated with the move. Local schools close to Emirates Stadium and Highbury were invited to enter a poem competition with the theme 'what having Arsenal in Islington means to me'. Winning pupils from five local schools were given the chance to have an exclusive look at the Emirates Stadium, walking up the players' tunnel and being some of the first to visit the players' dressing room.





THE FINAL SALUTE



Arsenal also asked pupils from Drayton Park, a school in close proximity to Emirates Stadium, to help decorate the hoardings around the new stadium and design posters with the theme of 'Arsenal's first goal at Emirates Stadium'. With tickets to a match at Highbury being offered for the six best designs, pupils used their artistic skills to create their vision of the scene when Arsenal score their first goal at Emirates Stadium.



With the Stadium complete the Club looks forward to an exciting first season at its outstanding new home.

Highbury Square

Construction on the redevelopment of Highbury commenced in August 2006 and, at the time of writing, less than 70 of the residential units released for sale at 'The Stadium' – Highbury Square are yet to be sold.



In what is believed to be the world's first sporting stadium to be transformed into apartments, 'The Stadium-Highbury Square' will consist of 711 apartments comprising of studios, one-, two- and three-bedrooms and penthouses and will be completed by 2010.



Highbury's Grade II-listed East Stand and opposing West Stand will be converted into high-spec apartments, many overlooking the pitch, which has seen so many glorious football moments over the last 93 years. The goalposts will be removed and the pitch will become a garden of nearly two acres. The North and South Stands will be replaced by new-build apartments designed in harmony with the East and West Stands.





REVIEW OF THE 2005/2006 SEASON

FIRST TEAM

Arsenal marked the historic, final season at Highbury by reaching the final of the UEFA Champions League for the first time. The record-breaking, unbeaten run to Paris began at home to Swiss side FC Thun, when Dennis Bergkamp's late goal secured all three points. More wins followed against Ajax, Sparta Prague (home and away) and FC Thun away, as Arsenal secured top spot in their group and qualification for the knock-out phase before the time they drew 0-0 at home to Ajax. Thierry Henry's second goal in the 2-0 win in Prague was his 186th in all competitions for the Club, making him the all-time leading scorer for Arsenal.

The Gunners eliminated Real Madrid in the first knock-out round with a 1-0 aggregate win, thanks to Thierry Henry's superb solo goal in the Bernabeu. Arsenal's quarter-final opponents were Juventus and a 2-0 win at Highbury was followed by a goalless draw in Turin as Arsène Wenger's side progressed to

the semi-finals of Europe's premier club competition for the very first time.

In defeating Spanish side Villarreal 1-0 over two legs in the semi-final, Arsenal extended the record for most consecutive European games without conceding a goal to ten and booked their place in the final at the Stade de France. In the final, despite taking the lead through Sol Campbell, ten-man Arsenal conceded two late goals which resulted in Barcelona emerging as 2-1 winners.

In the Barclays Premiership the team's performances were not as consistent as in recent years and some indifferent away form saw Arsenal fall away from the title fight. However, the team closed the league campaign strongly and a dramatic last day win over Wigan Athletic secured a creditable fourth place finish and a spot in the 2006/07 UEFA Champions League.

Thierry Henry scored a hat-trick in the 4-2 win over Wigan at Highbury to take his tally for the



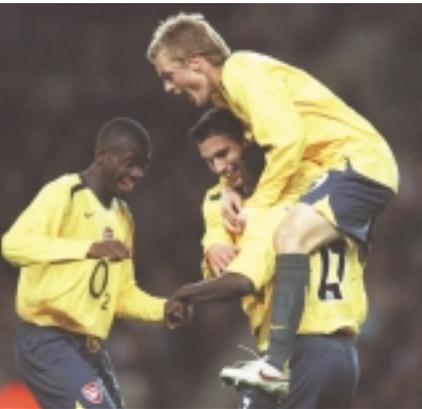
BARCLAYS PREMIERSHIP 2005/2006 FINAL TABLE

	HOME						AWAY					Pts	GD
	P	W	D	L	F	A	W	D	L	F	A		
Chelsea	38	18	1	0	47	9	11	3	5	25	13	91	+50
Manchester United	38	13	5	1	37	8	12	3	4	35	26	83	+38
Liverpool	38	15	3	1	32	8	10	4	5	25	17	82	+32
Arsenal	38	14	3	2	48	13	6	4	9	20	18	67	+37
Tottenham Hotspur	38	12	5	2	31	16	6	6	7	22	22	65	+15
Blackburn Rovers	38	13	3	3	31	17	6	3	10	20	25	63	+9
Newcastle United	38	11	5	3	28	15	6	2	11	19	27	58	+5
Bolton Wanderers	38	11	5	3	29	13	4	6	9	20	28	56	+8
West Ham United	38	9	3	7	30	25	7	4	8	22	30	55	-3
Wigan Athletic	38	7	3	9	24	26	8	3	8	21	26	51	-7
Everton	38	8	4	7	22	22	6	4	9	12	27	50	-15
Fulham	38	13	2	4	31	21	1	4	14	17	37	48	-10
Charlton Athletic	38	8	4	7	22	21	5	4	10	19	34	47	-14
Middlesbrough	38	7	5	7	28	30	5	4	10	20	28	45	-10
Manchester City	38	9	2	8	26	20	4	2	13	17	28	43	-5
Aston Villa	38	6	6	7	20	20	4	6	9	22	35	42	-13
Portsmouth	38	5	7	7	17	24	5	1	13	20	38	38	-25
Birmingham City	38	6	5	8	19	20	2	5	12	9	30	34	-22
West Bromwich Albion	38	6	2	11	21	24	1	7	11	10	34	30	-27
Sunderland	38	1	4	14	12	37	2	2	15	14	32	15	-43





REVIEW OF THE 2005/2006 SEASON



season to 27 league goals and win the Golden Boot award for the fourth time in the past five seasons. Aside from that last day win in the final ever fixture at Highbury there were several other notable performances during the season including a 7-0 win over Middlesbrough and a 5-0 victory against Aston Villa.

The strike partnership of Arturo Lupoli and Nicklas Bendtner combined to score 36 goals between them, whilst Sebastian Larsson and Jay Simpson added 11 goals from midfield. Highlights from the season included the 5-0 win at Norwich, the 4-1 win at Leicester City and a 4-0 victory over Coventry City.



In the domestic cup competitions, a last minute goal from Wigan in the second leg of the Carling Cup semi-final prevented a young Arsenal team from reaching the Millennium Stadium. Arsenal had earlier knocked out Sunderland, Reading and Doncaster Rovers. In the FA Cup, Arsenal were beaten by a late Bolton Wanderers strike in the Fourth Round tie at the Reebok Stadium.

At reserve team level performances are just as important as results and many teenagers who impressed for the reserves were subsequently introduced into the first team squad. Fabrice Muamba, Anthony Stokes, Kerrea Gilbert, Johan Djourou, Bendtner and Lupoli were all among the reserve team players who progressed to the first team during the season. In fact, Gilbert went on to make nine first team appearances in all and Djourou appeared in the Champions League and went on to play for Switzerland in the World Cup.

Reserves

Arsenal's reserves spent most of the season at the top of the table, and eventually finished in the top three for the second consecutive season. The campaign included a 13-match unbeaten run, from August to February, and Neil Banfield's team, which was once again made up mainly of Under 21s, finished the season as top scorers in the division with 60 goals from 26 matches.

England's youngest ever international, Theo Walcott, made his first appearance in an Arsenal shirt for the reserves against Portsmouth in February, marking his debut with a goal. In all he made three appearances for the reserves, scoring twice.



FA BARCLAYCARD PREMIERSHIP RESERVE LEAGUE SOUTH 2005/2006 FINAL TABLE

	P	W	D	L	F	A	Pts	GD
Tottenham Hotspur	26	20	3	3	57	13	63	44
Southampton	26	16	3	7	50	26	51	24
Arsenal	26	14	7	5	60	34	49	26
Charlton Athletic	26	13	4	9	37	30	43	7
Coventry City	26	13	1	12	30	36	40	-6
Chelsea	26	10	9	7	34	24	39	10
Crystal Palace	26	11	5	10	44	41	38	3
Fulham	26	11	3	12	26	32	36	-6
Ipswich Town	26	10	1	15	44	54	31	-10
West Ham United	26	7	8	11	37	38	29	-1
Leicester City	26	7	7	12	38	57	28	-19
Watford	26	8	3	15	25	51	27	-26
Portsmouth	26	6	4	16	35	54	22	-19
Norwich City	26	4	6	16	19	46	18	-27





REVIEW OF THE 2005/2006 SEASON

Youth

Steve Bould continued as coach to the Club's promising youth talent, at Under 18 level, for season 2005/2006 and led the team to a respectable fourth place.

Unfortunately, the youngsters were knocked out at the Third Round stage of the FA Youth Cup losing to Brentford on penalties after drawing 2-2.

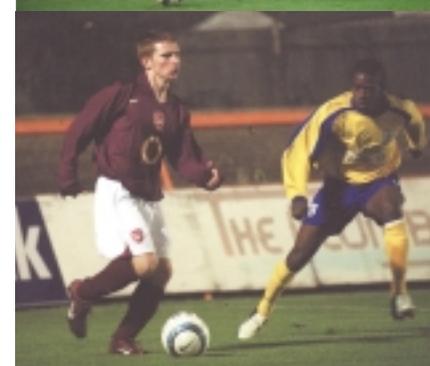
FA PREMIER ACADEMY LEAGUE U18 GROUP A 2005/2006 FINAL TABLE

	P	W	D	L	F	A	Pts	GD
Southampton	28	17	5	6	72	35	56	37
Chelsea	28	17	5	6	45	21	56	24
West Ham United	28	13	6	9	51	41	45	10
Arsenal	28	11	5	12	47	47	38	0
Norwich City	28	10	6	12	31	34	36	-3
Fulham	28	9	5	14	30	46	32	-16
Ipswich Town	28	8	7	13	53	64	31	-11
Crystal Palace	28	8	6	14	54	59	30	-5
Charlton Athletic	28	8	4	16	36	52	28	-16
Millwall	28	6	8	14	30	52	26	-22

Many positives can be taken from the campaign as a number of youngsters made the step up from Under-18 level into the reserves and even the first team. Marc Elston ended the season as the team's top scorer with 11 goals in 23 appearances and Nicklas Bendtner finished second with nine in nine games.

In October, Fabrice Muamba's excellent form earned him a call-up to the first team and he started the first two Carling Cup fixtures against Sunderland and Reading before being forced out due to injury. Anthony Stokes was another who made an appearance for the first team as was Bendtner.

As always, the youth development staff will be looking to bring on more talented young players for the Club over the new season.





REVIEW OF THE 2005/2006 SEASON

Ladies

2005/2006 was another very successful year for Arsenal Ladies who secured their third 'double' in the last six years. The Ladies won their third consecutive league title and added a seventh Women's FA Cup to their burgeoning list of honours.



Unfortunately, Vic Akers' side failed to win a third and fourth domestic trophy when they were beaten 2-1 by Charlton Athletic in the Final of the League Cup. The Addicks also beat Arsenal 4-3 in the London County Cup.

In European competition the Ladies fell at the quarter-final stage of the Women's UEFA Cup, losing out 4-2 on aggregate to the eventual winners FFC Frankfurt.

In retaining the league title, the Ladies went the course of the season unbeaten winning 16 of the 18 games and drawing two. In total, they scored 83 goals, 26 better than in season



FA WOMEN'S PREMIER LEAGUE 2005/2006 FINAL TABLE

	P	W	D	L	F	A	Pts	GD
Arsenal	18	16	2	0	83	20	50	63
Everton	16	12	2	2	43	19	38	24
Charlton Athletic	16	11	3	2	35	12	36	23
Doncaster Belles	18	7	2	9	32	34	23	-2
Bristol Academy	18	4	8	6	19	29	20	-10
Leeds United	17	4	6	7	26	34	18	-8
Birmingham City	17	5	2	10	23	40	17	-17
Fulham	17	4	2	11	24	44	14	-20
Sunderland	17	3	4	10	22	51	13	-29
Chelsea	18	3	3	12	22	46	12	-24



2004/05, and conceded just 20. The team's top scorer was Kelly Smith who finished another productive season with 27 goals from just 28 appearances. Kelly finished her season off in fine style by winning the Nationwide Players' Player of the Year. Special mention should be made of young talent Lianne Sanderson who managed 17 league goals in as many starts. Her promise and ability were also picked out by Hope Powell, the England Women's coach, who called up Lianne for her debut against Hungary in a World Cup qualifier in May.



Finally, thanks are due to Fred Donnelly, the Director of the Ladies Academy, who decided that season 2005/06 would be his last after six successful years with Arsenal. Kirsty Pealling, a valuable servant to Arsenal Ladies since 1987, also joined Fred in retirement at the end of last season.





CHARITY OF THE SEASON 2005/06

The David Rocastle Trust

Arsenal Football Club and The David Rocastle Trust enjoyed a successful partnership over the course of the charity's inaugural year.

The Trust was founded in memory of the Arsenal legend David Rocastle, affectionately known as 'Rocky', who lost his battle to cancer in 2001 at the age of just 33. The Trust has established objectives which focus on providing support and assistance to David's family, to community projects in 'Rocky's' name and to two nominated charities, Great Ormond Street Hospital Children's Charity and Cancer Research UK. Over the course of the 2005/06 season the Trust, in partnership with Arsenal Football Club and generously supported by Arsenal fans, raised over £150,000.

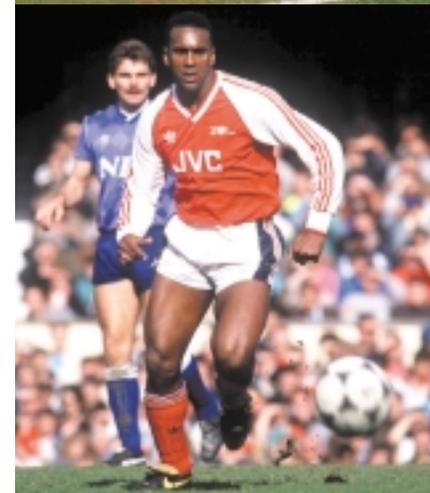
The Club dedicated Arsenal's home game against Aston Villa in April 2006 to the charity with first team players wearing a special limited edition t-shirt for their pre-match warm up and over £14,000 was raised on the day. Player participation and support for the Charity of the Season initiative has been excellent with a number of players participating in promotional work which received national media coverage.

In May, the Arsenal Charity Ball was attended by a number of Arsenal legends, including Ian Wright, who paid tribute to David Rocastle and the evening raised over

£60,000 for good causes including the Charity of the Season. Many smaller fundraising events have been organised by fans and ex-Arsenal player Michael Thomas ran the London marathon run in support of the Trust. The Club has donated part of the Highbury Auction proceeds and has sold t-shirts and key-rings through its shops as well as providing its support and ensuring a solid foundation for the Trust.

The closing chapter in the partnership came in August when Arsenal announced that its indoor sports facility at Hale End in Walthamstow was to be named after David Rocastle, a fitting legacy as 'Rocky' himself came through the youth ranks at Arsenal, alongside players such as Michael Thomas and Martin Keown. Speaking at the opening of the 'David Rocastle Indoor Centre' Arsène Wenger said: "David is fondly remembered by everyone at Arsenal as a true professional, and it is nice to have something with us as a daily reminder of what he did for the Club. I'm sure his memory and achievements will be an inspiration to our young players starting their careers, just as Rocky did, in the Arsenal Academy."

Whilst continuing to support the David Rocastle Trust, the Club will now welcome a new Charity of the Season partner, the Willow Foundation, for its first season at Emirates Stadium.





ARSENAL IN THE COMMUNITY

Arsenal in the Community celebrated its 21st anniversary during the year with events taking place in February 2006 to mark the milestone. Whilst the primary focus of the department's work involves the local community in North London, over its 21-year history, Arsenal in the Community has established working groups all over the World.

Arsenal in the Community's 21st Anniversary

To commemorate the department's commitment to services to the community, the Club hosted a week-long celebration involving staff and participants from the many initiatives co-ordinated by Arsenal in the Community. The 21st anniversary celebrations were opened by French left back, Gael Clichy, who also turned 21 during the year. Gael presented a cake to the community department staff and also joined in the celebrations with soccer school participants.

Arsenal goalkeeping legend Bob Wilson also helped the celebrations along when he visited a bowls session on the hallowed turf at Highbury for senior citizens who have been attending the bowling club at Highbury for over 20 years. Bob also kicked off the "Arsenal in the Community Final Salute Penalty Shoot-Out" heats where all the participants in our community projects were invited to take penalties into a specially designed goal to ultimately win the chance to put one past David Seaman at Arsenal's final game at Highbury against Wigan on 7th May.

Arsenal and England Ladies player Lianne Sanderson also attended a 'girls only' soccer session at Highbury to celebrate the anniversary with our female supporters.

Arsenal Disability Football

Whilst football sessions for adults with learning difficulties continue, Arsenal has

established an exciting link up with St Johns Deaf FC, now known as St Johns Arsenal DFC. Arsenal has provided a minibus for the club's away matches and allowed the use of the training facilities at Highbury and donated home and away kits to the club. St Johns won the EDF Challenge Cup final against Everton this year.

Last season Arsenal became one of the 50 'Ability Counts' clubs - a league run by the FA. The Ability Counts League is in its first year of organising matches for a number of teams made up of footballers with a wide range of special needs. The Club's MENCAP team represented Arsenal in an Ability Counts football festival in April this year.

The Club once again hosted the London Visually Impaired (VI) League Football tournament and several players from Arsenal's VI teams were selected to play for London in the National Championships.

Arsenal Soccer Schools

Arsenal Football Club 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, Arsenal Soccer Schools coached more than 13,000 young footballers of all abilities aged between six and 15. In addition, more than 100 coaches received elements of the Club's modular coaching programme. As an extension to this programme we also offer a residential version of the soccer school and these have been operating at various venues across the south of England during the summer school holidays for the past 15 years.

Arsenal Abroad

Communities around the world continue to benefit from sport and education projects delivered by the Club. In 2006, Arsenal in the Community visited Barbados and Arsenal





ARSENAL IN THE COMMUNITY

Soccer Schools were established in China, Mexico and Canada.

During the year Arsenal also launched a soccer school initiative at Kiryat Ono Sports Centre near Tel Aviv, which was attended by more than 400 people. Some 600 Jewish and Arab children aged six to fourteen will train twice a week at other centres in Tirat, Rahatm Um el Fahm, Misgav and Kiryat Ono.

Arsenal Double Club

In June 2005, the Arsenal Double Club was very proud to be presented with Business in the Community's Big Tick award for its investment in education. The Big Tick acknowledges a high standard of excellence in the way the Club organises and integrates responsible business practices that show a positive impact on society.

This year, the Club was re-accredited with the award and its education programme has moved on by adding German and geography to its extensive list of subjects covered. Last season the Club ran Double Clubs at Highbury, during holiday times, for young refugees and asylum seekers. Arsenal in the Community officers also delivered the scheme to inmates at Pentonville Prison.

Arsenal and Positive Futures

This initiative continues to work with young people from local estates and various referral organisations. Sport is used as a route to engage participants with the longer term aim of widening the horizons of the project's 10 to 19 year-old participants.

Last year, the Harvist Estate in Islington saw a number of initiatives to the "on-estate"

section of the project including a newly refurbished football 'cage' using the latest FIFA approved, third generation astro-turf football pitch, the conversion of a disused communal flat into a classroom area and a new on-estate Arsenal Positive Futures office base. The latter being the first of its kind in Islington. This work has been achieved through a close working relationship with our project partners, Homes for Islington, who have made a significant investment into this area of the project.

Support for Charities

In addition to the Charity of the Season initiative with The David Rocastle Trust, the Arsenal Charitable Trust continues to donate to a number of worthwhile local causes including The Whittington Hospital and London Youth Games. Arsenal Football Club also assisted the British Heart Foundation (BHF) by raising awareness of its work when the Club invited back a group of men who had participated in a football match organised by BHF against an Arsenal XI in 1980 and aired on the BBC's Jim'll Fix It television programme.

Pitch Perfect

'Pitch Perfect' saw 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 saw the creation of a new football anthem. The performance of the anthem took place in November at the Wembley Conference Centre - the evening was hosted by BBC's Ray Stubbs and was shown live on Children in Need night.





DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 May 2006.

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 29 and are considered, together with a review of the Group's business performance for the year and its future prospects, in the Financial Review section of the Chairman's Report.

The directors do not recommend the payment of a dividend (2005 - £Nil).

Directors and their interests

The directors of the company, 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	
	2006	2005
P.D. Hill-Wood	348	348
Lady Nina Bracewell-Smith	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. Fizman	15,659	15,659
K.J. Friar OBE	199	199
Lord Harris of Peckham (appointed 24 November 2005)	53	40
Sir Chips Keswick (appointed 24 November 2005)	20	-

In addition, Sir Roger Gibbs served as a director until the date of his retirement on 22 June 2006. The shares held by K.G. Edelman are as nominee for D.D. Fizman. 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 D.B. Dein and K.J. Friar retire by rotation and, being eligible, offer themselves for re-election at the company's Annual General Meeting. In addition, Lord Harris of Peckham and Sir Chips Keswick, having been appointed during the year, retire and, being eligible, offer themselves 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 18 September 2006:

	Shares	%
Granada Media Group Limited	6,216	9.99

Political and charitable contributions

During the year the Group made donations for charitable purposes amounting to £26,795 (2005 - £31,972).

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 30 days (2005 - 25 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

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors have chosen to prepare the financial statements for the company and the Group in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP.) Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view, in accordance with UK GAAP, 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 and which comply with UK GAAP and the Companies Act 1985. 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 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.

Disclosure of information to auditors

In the case of each of the persons who are directors of the company at the date when this report was approved:

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the company's auditors are unaware; and
- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

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
Secretary
19 September 2006

Registered office:
Highbury House
75 Drayton Park
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 six 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 four non-executive directors, Sir Chips Keswick (Chairman), D.D. Fiszman, Lord Harris of Peckham and Lady Nina Bracewell-Smith, 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 27.





THE REMUNERATION REPORT

The Remuneration Committee

The Committee consists of three non-executive directors, P.D. Hill-Wood (Chairman), Lord Harris of Peckham, and R.C.L. Carr, together with the Granada Media 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
19 September 2006





INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARSENAL HOLDINGS PLC

We have audited the group and individual company financial statements (the "financial statements") of Arsenal Holdings Plc for the year ended 31 May 2006 which comprise the consolidated profit and loss account, the consolidated and individual company 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Chairman's report and the Directors' report for the above year as described in the contents section 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 International Standards on Auditing (UK and Ireland) 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 circumstances of the company and the group, 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the individual company's affairs as at 31 May 2006 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors, London

19 September 2006





CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 May 2006

	Note	2006			2005		
		Operations excluding player trading £000's	Player trading £000's	Total £000's	Operations excluding player trading £000's	Player trading £000's	Total £000's
Turnover of the group including its share of joint ventures		138,105	139	138,244	138,983	-	138,983
Share of turnover of joint venture		(1,007)	-	(1,007)	(588)	-	(588)
Group turnover	3	137,098	139	137,237	138,395	-	138,395
Operating expenses	4	(125,775)	(15,401)	(141,176)	(105,764)	(14,993)	(120,757)
Operating profit/(loss)		11,323	(15,262)	(3,939)	32,631	(14,993)	17,638
Share of joint venture operating result		499	-	499	204	-	204
Profit on disposal of player registrations		-	19,150	19,150	-	2,894	2,894
Profit/(loss) on ordinary activities before finance charges		<u>11,822</u>	<u>3,888</u>	15,710	<u>32,835</u>	<u>(12,099)</u>	20,736
Net finance income/(charges)	5			175			(1,471)
Profit on ordinary activities before taxation				15,885			19,265
Taxation	8			(7,983)			(10,972)
Profit after taxation retained for the financial year				<u>7,902</u>			<u>8,293</u>
Earnings per share (basic and diluted)	9			<u>£127.01</u>			<u>£138.91</u>

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 current or previous 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 2006

	Note	Group 2006 £000's	Group 2005 £000's	Company 2006 £000's	Company 2005 £000's
Fixed assets					
Tangible fixed assets	10	451,501	314,822	-	-
Intangible fixed assets	11	66,555	28,983	-	-
Investments	12	-	-	30,059	30,059
		<u>518,056</u>	<u>343,805</u>	<u>30,059</u>	<u>30,059</u>
Current assets					
Stock – development properties	13	44,446	28,125	-	-
Stock – retail merchandise		504	711	-	-
Debtors - due within one year	14	44,736	26,449	-	-
- due after one year	14	4,253	8,479	114,649	40,921
Cash at bank and in hand		35,598	71,629	-	30,300
		<u>129,537</u>	<u>135,393</u>	<u>114,649</u>	<u>71,221</u>
Creditors: amounts falling due within one year	15	<u>(167,703)</u>	<u>(107,244)</u>	<u>(437)</u>	-
Net current (liabilities)/assets		<u>(38,166)</u>	<u>28,149</u>	<u>114,212</u>	<u>71,221</u>
Total assets less current liabilities		<u>479,890</u>	<u>371,954</u>	<u>144,271</u>	<u>101,280</u>
Creditors: amounts falling due after more than one year	16	<u>(321,240)</u>	<u>(238,706)</u>	<u>(10,728)</u>	<u>(10,392)</u>
Provisions for liabilities and charges	18	<u>(28,092)</u>	<u>(10,592)</u>	-	-
Net assets		<u><u>130,558</u></u>	<u><u>122,656</u></u>	<u><u>133,543</u></u>	<u><u>90,888</u></u>
Equity capital and reserves					
Called up share capital	19	62	62	62	62
Share premium	20	29,997	29,997	29,997	29,997
Merger reserve	21	26,699	26,699	-	-
Profit and loss account	22	73,800	65,898	103,484	60,829
Equity shareholders' funds		<u><u>130,558</u></u>	<u><u>122,656</u></u>	<u><u>133,543</u></u>	<u><u>90,888</u></u>

These financial statements were approved and authorised for issue by the Board of Directors on 19 September 2006.

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 2006

	Note	2006 £000's	2005 £000's
Net cash inflow from operating activities	24a	41,074	81,159
Player registrations	24d	(11,793)	(8,736)
Returns on investment and servicing of finance	24d	(14,627)	(14,072)
Taxation		(3,365)	(441)
Capital expenditure	24d	<u>(117,693)</u>	<u>(97,813)</u>
Net cash outflow before financing		(106,404)	(39,903)
Financing	24d	<u>70,373</u>	<u>85,529</u>
(Decrease)/increase in cash in the year		<u><u>(36,031)</u></u>	<u><u>45,626</u></u>





NOTES TO THE ACCOUNTS

For the year ended 31 May 2006

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 2006.

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 £42.7 million (2005 - £0.3 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 2006

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. Depreciation will be charged on the Group's new stadium development in the year ending 31 May 2007 now that 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 costs

The costs associated with acquiring players' registrations or extending their contracts, including agents' fees, are capitalised and amortised, in equal installments, over the period of the respective players' contract. Where a contract life is renegotiated the unamortised costs, together with the new costs relating to the contract extension, are amortised over the term of the new contract.





NOTES TO THE ACCOUNTS

For the year ended 31 May 2006

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Player costs (continued)

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.

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.

Remuneration of players is charged in accordance with the terms of the applicable contractual arrangements and any discretionary bonuses when there is a legal or constructive obligation.

(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 2006/07 season and the pre-sale of executive boxes and Club Tier seats at Emirates Stadium. Deferred income also includes income from the pre-sale of residential properties at Highbury Square which will be credited to the profit and loss account on completion of the sale contracts.

(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 including 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.





NOTES TO THE ACCOUNTS

For the year ended 31 May 2006

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(p) Pensions (continued)

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.

(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	
	2006 £000's	2005 £000's	2006 £000's	2005 £000's	2006 £000's	2005 £000's
Turnover	<u>132,122</u>	<u>115,083</u>	<u>5,115</u>	<u>23,312</u>	<u>137,237</u>	<u>138,395</u>
Segment operating (loss)/profit	(4,209)	5,195	270	12,443	(3,939)	17,638
Share of operating profit of joint venture	499	204	-	-	499	204
Profit on disposal of player registrations	19,150	2,894	-	-	19,150	2,894
Net finance income / (charges)	<u>1,330</u>	<u>576</u>	<u>(1,155)</u>	<u>(2,047)</u>	<u>175</u>	<u>(1,471)</u>
Profit/(Loss) on ordinary activities before taxation	<u>16,770</u>	<u>8,869</u>	<u>(885)</u>	<u>10,396</u>	<u>15,885</u>	<u>19,265</u>
Segment net assets/(liabilities)	<u>136,498</u>	<u>117,918</u>	<u>(5,940)</u>	<u>4,738</u>	<u>130,558</u>	<u>122,656</u>





NOTES TO THE ACCOUNTS

For the year ended 31 May 2006

3. Turnover

	2006	2005
	£000's	£000's
Turnover, all of which originates in the UK, comprises the following:		
Gate and other match day revenues	44,099	37,397
Broadcasting	54,870	48,594
Retail	10,218	8,389
Commercial	22,796	20,703
Property development	5,115	23,312
Player trading	139	-
	<u>137,237</u>	<u>138,395</u>

4. Operating expenses

	2006	2005
	£000's	£000's
Operating expenses comprise:		
Amortisation of player registrations	15,401	14,993
Depreciation	2,384	1,933
Total depreciation and amortisation	<u>17,785</u>	<u>16,926</u>
Staff costs (see note 6)	82,965	66,012
Cost of property sales	2,701	10,220
Other operating charges	37,725	27,599
Total operating expenses	<u><u>141,176</u></u>	<u><u>120,757</u></u>

Other operating charges include:

Auditors' remuneration		
- audit	115	100
- non-audit services	791	516
Operating lease payments		
- plant and machinery	232	249
- other	777	663
Profit on disposal of tangible fixed assets	<u>(19)</u>	<u>(41)</u>

Included in the above are audit fees of £15,000 (2005 - £10,500) 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 £Nil (2005 - £9,890) (included within fixed assets) and £2,097 (2005 - £2,520) (included in development property stocks). Further non-audit fees of £15,100 (2005 - £Nil), relating to the refinancing of the Group's bank debts, are classified as prepayments.





NOTES TO THE ACCOUNTS

For the year ended 31 May 2006

5. Net finance income/(charges)

	2006	2005
	£000's	£000's
Interest payable and similar charges:		
Bank loans and overdrafts	(17,220)	(14,957)
Other	(560)	(591)
Costs of raising long term finance	(2,047)	(2,073)
	<u>(19,827)</u>	<u>(17,621)</u>
Finance costs capitalised	<u>17,696</u>	<u>14,549</u>
Total interest payable and similar charges	(2,131)	(3,072)
Interest receivable	<u>2,306</u>	<u>1,601</u>
	<u>175</u>	<u>(1,471)</u>

The interest capitalised of £17,696,000 (2005 - £14,549,000) is included in tangible fixed assets.

6. Employees

	2006	2005
	Number	Number
The average number of persons employed by the Group during the year was:		
Playing staff	49	61
Training staff	32	32
Administrative staff	190	158
Ground staff	41	42
	<u>312</u>	<u>293</u>
	£000's	£000's
Staff costs:		
Wages and salaries	68,929	56,606
Social security costs	7,382	5,837
Other pension costs	6,654	3,569
	<u>82,965</u>	<u>66,012</u>





NOTES TO THE ACCOUNTS

For the year ended 31 May 2006

7. Directors' emoluments

	2006					2005	
	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	52	-	9	61	-	61	40
DB Dein	250	250	-	500	-	500	250
Sir Roger Gibbs	15	-	-	15	-	15	5
RCL Carr	15	-	-	15	-	15	5
Lady Nina Bracewell-Smith	15	-	-	15	-	15	-
KJ Friar OBE	210	250	21	481	222	703	526
DD Fiszman	15	-	-	15	-	15	5
KG Edelman	577	450	6	1,033	5	1,038	927
Sir Chips Keswick	15	-	-	15	-	15	-
Lord Harris of Peckham	-	-	-	-	-	-	-
	<u>1,164</u>	<u>950</u>	<u>36</u>	<u>2,150</u>	<u>227</u>	<u>2,377</u>	<u>1,758</u>

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.

Lord Harris of Peckham waived director's fees of £14,583 and the Group donated the amount waived to an appropriate charity.

8. Tax on profit on ordinary activities

	2006	2005
	£000's	£000's
UK Corporation tax charge at 30% (2005 – 30%)	701	3,764
(Over)/under provision in respect of prior years	(2,018)	2,450
Total current taxation	(1,317)	6,214
Deferred taxation (see note 18)		
Origination and reversal of timing differences	8,333	5,096
Under/(over) provision in respect of prior years	967	(338)
Total tax on profit on ordinary activities	<u>7,983</u>	<u>10,972</u>





NOTES TO THE ACCOUNTS

For the year ended 31 May 2006

8. Tax on profit on ordinary activities (continued)

	2006 £000's	2005 £000's
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:		
Group profit on ordinary activities before tax	<u>15,885</u>	<u>19,265</u>
Tax on Group profit on ordinary activities before tax at standard UK corporation tax rate of 30% (2005 – 30%)	4,765	5,780
Effects of:		
Capital allowances in excess of depreciation	(2,085)	(1,142)
Other timing differences	(6,249)	(4,363)
Expenses not deductible for tax purposes	4,420	3,550
Tax losses utilised	(150)	(61)
Adjustments to tax charge in respect of prior years	<u>(2,018)</u>	<u>2,450</u>
Group current tax for the year	<u>(1,317)</u>	<u>6,214</u>

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 - 62,217 shares (2005 - 59,700 shares).





NOTES TO THE ACCOUNTS

For the year ended 31 May 2006

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 2005	166,328	150,975	5,532	10,101	332,936
Additions	133,678	1,834	550	961	137,023
Disposals	-	-	-	(648)	(648)
Transfers	-	2,048	-	-	2,048
At 31 May 2006	<u>300,006</u>	<u>154,857</u>	<u>6,082</u>	<u>10,414</u>	<u>471,359</u>
Depreciation					
At 1 June 2005	-	8,543	1,244	8,327	18,114
Charge for the year	-	1,117	309	958	2,384
Disposals	-	-	-	(640)	(640)
At 31 May 2006	<u>-</u>	<u>9,660</u>	<u>1,553</u>	<u>8,645</u>	<u>19,858</u>
Net book value					
At 31 May 2006	<u>300,006</u>	<u>145,197</u>	<u>4,529</u>	<u>1,769</u>	<u>451,501</u>
At 31 May 2005	<u>166,328</u>	<u>142,432</u>	<u>4,288</u>	<u>1,774</u>	<u>314,822</u>

At 31 May 2006 the Group had contracted capital commitments of £30.8 million (2005 - £119.1 million). Freehold property with a cost of £2.05 million was transferred from development property stocks during the year.





NOTES TO THE ACCOUNTS

For the year ended 31 May 2006

11. Intangible fixed assets

Cost of player registrations	£000's
At 1 June 2005	90,565
Additions	53,550
Disposals	(10,953)
At 31 May 2006	<u>133,162</u>
Amortisation of player registrations	
At 1 June 2005	61,582
Charge for the year	15,401
Disposals	(10,376)
At 31 May 2006	<u>66,607</u>
Net book value	
At 31 May 2006	<u>66,555</u>
At 31 May 2005	<u>28,983</u>

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	2006	2005
	£000's	£000's
Investments at cost	20,000	20,000
Accumulated share of loss of joint venture	(209)	(708)
Adjustment to eliminate unrealised profit on sale of intangible assets	(20,000)	(20,000)
Provision against share of losses of joint venture (note 18)	<u>(209)</u>	<u>(708)</u>

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 2006 is as follows:

	2006	2005
	£000's	£000's
Fixed assets	52	70
Current assets	1,124	456
Liabilities	<u>(1,385)</u>	<u>(1,234)</u>
	<u>(209)</u>	<u>(708)</u>





NOTES TO THE ACCOUNTS

For the year ended 31 May 2006

12. Investments (continued)

Investments in subsidiary undertakings

Balance at 1 June 2005 and 31 May 2006

Company
£000's
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
Arsenal (Emirates Stadium) Limited* (formerly 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
Arsenal Securities plc*	Great Britain	100%	Financing
Arsenal Stadium Management Company Limited*	Great Britain	100%	Stadium 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	
	2006 £000's	2005 £000's	2006 £000's	2005 £000's
Amounts recoverable within one year:				
Trade debtors	14,366	15,230	-	-
Other debtors	5,780	1,289	-	-
Prepayments and accrued income	24,590	9,930	-	-
	<u>44,736</u>	<u>26,449</u>	<u>-</u>	<u>-</u>
Amounts recoverable in more than one year:				
Trade debtors	-	7,556	-	-
Amount due from group undertakings	-	-	114,649	40,921
Other debtors	3,561	156	-	-
Prepayments and accrued income	692	767	-	-
	<u>4,253</u>	<u>8,479</u>	<u>114,649</u>	<u>40,921</u>

Trade debtors of £7.5 million are supported by bank guarantees. Other debtors, of £9.3 million, include £8.7 million in respect of player transfers (2005 - £0.9 million) of which £3.4 million is recoverable in more than one year and £6.8 million is covered by bank guarantees.



NOTES TO THE ACCOUNTS

For the year ended 31 May 2006

15. Creditors: amounts falling due within one year

	Group		Company	
	2006 £000's	2005 £000's	2006 £000's	2005 £000's
Bank loans and overdrafts - secured	22,816	19,572	-	-
Trade creditors	15,747	9,491	-	-
Corporation tax	4,681	9,363	437	-
Other tax and social security	3,191	3,447	-	-
Other creditors	21,237	5,623	-	-
Accruals and deferred income	100,031	59,748	-	-
	<u>167,703</u>	<u>107,244</u>	<u>437</u>	<u>-</u>

Other creditors, above and as disclosed in note 16, include £27.2 million (2005 - £5.9 million) in respect of player transfers.

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

	Group		Company	
	2006 £000's	2005 £000's	2006 £000's	2005 £000's
Bank loans - secured	249,761	180,559	-	-
Debenture loans	25,165	24,829	10,728	10,392
Other creditors	6,343	1,329	-	-
Grants	4,500	4,250	-	-
Deferred income	35,471	27,739	-	-
	<u>321,240</u>	<u>238,706</u>	<u>10,728</u>	<u>10,392</u>
Debenture loans comprise:				
Par value of debentures plus accumulated interest	25,476	25,182	11,039	10,745
Costs of raising finance	(311)	(353)	(311)	(353)
	<u>25,165</u>	<u>24,829</u>	<u>10,728</u>	<u>10,392</u>

Under the issue terms debentures with a par value of £14,438,000 are repayable at par after 136 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 22 years and carry cumulative compound interest at 2.75% per annum.

	2006 £000's	2005 £000's
Bank loans comprise:		
Bank loans	284,035	213,703
Costs of raising finance	(11,458)	(13,572)
	<u>272,577</u>	<u>200,131</u>
Due within one year	22,816	19,572
Due after more than one year	249,761	180,559
	<u>272,577</u>	<u>200,131</u>

The costs of raising loan finance are amortised to the profit and loss account over the term of the loan. The amortisation charge for the year was £2,114,000 (2005 - £1,874,000).





NOTES TO THE ACCOUNTS

For the year ended 31 May 2006

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

	Group	
	2006	2005
	£000's	£000's
Borrowing are repayable as follows:		
Bank loans		
Between one and two years	32,463	16,422
Between two and five years	53,488	51,130
After five years	173,377	125,959
	<u>259,328</u>	<u>193,511</u>
Within one year	24,707	20,192
Total bank loans	<u>284,035</u>	<u>213,703</u>

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.

Since the balance sheet date and as disclosed in note 29 the Group has completed refinancing arrangements relating to substantially all of its bank debt.

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 2006 was as follows:

	Fixed rate 2006 £000's	Floating rate 2006 £000's	Interest free 2006 £000's	Total 2006 £000's	Weighted average fixed rate %	Weighted average period for which rate is fixed yrs
Bank loans	280,305	3,730	-	284,035	8.0	10
Debenture loans	11,038	-	14,438	25,476	2.8	22
	<u>291,343</u>	<u>3,730</u>	<u>14,438</u>	<u>309,511</u>		



NOTES TO THE ACCOUNTS

For the year ended 31 May 2006

17. Derivative financial instruments (continued)

The interest rate profile at 31 May 2005 for comparative purposes was:-

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

The interest rate on the floating rate element of bank loans is currently set at LIBOR plus 1.95% (2005 - 1.95%). The Group's bank deposits earn interest at rates linked to LIBOR. The Group's other financial assets, comprising mainly debtor balances, do not earn interest.

In addition to the above, the Group has commitments under letters of credit, as disclosed in note 26, of £5.7 million (2005 - £5.5million) on which interest is currently paid at a fixed rate of 2%.

Since the balance sheet date and as disclosed in note 29 the Group has completed refinancing arrangements relating to substantially all of its bank debt.

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:

	2006	2005
	£000's	£000's
Expiring in:		
One year or less	41,073	25,000
Between two and five years	-	105,016
	<u>41,073</u>	<u>130,016</u>

Fair values

The fair value of all financial instruments at 31 May 2005 and 2006, other than interest rate swaps as disclosed below, was not materially different from their book value.

	2006		2005	
	Book value	Fair value	Book value	Fair value
	£000's	£000's	£000's	£000's
Interest rate swaps	-	(7,440)	-	(14,621)
	<u>-</u>	<u>(7,440)</u>	<u>-</u>	<u>(14,621)</u>

Derivative financial instruments held to manage the Group's interest rate profile:

Interest rate swaps	-	(7,440)	-	(14,621)
	<u>-</u>	<u>(7,440)</u>	<u>-</u>	<u>(14,621)</u>

The fair value 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 2006

17. Derivative financial instruments (continued)

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

	Group	
	2006	2005
	£000's	£000's
Unrecognised losses at start of year	(14,621)	(734)
Unrecognised gains/(losses) arising in year	7,181	(13,887)
Unrecognised losses at end of year	<u>(7,440)</u>	<u>(14,621)</u>
Of which:		
Gains and losses expected to be recognised in 2006/07	<u>(7,440)</u>	-
Gains and losses expected to be recognised later than 2006/07	<u>-</u>	<u>(14,621)</u>

Foreign currency

Included in other debtors are amounts of £8.2 million (2005 - £0.3 million) denominated in Euros.

Included in prepayments and accrued income are amounts of £10.5 million (2005 - £3.7 million) denominated in Swiss Francs.

Included in other creditors are amounts of £17.2 million (2005 - £3.7 million) denominated in Euros and £0.2 million (2005 - £0.2 million) denominated in US dollars. Included in provisions are amounts of £3.3 million (2005 - £Nil) denominated in Euros.

18. Provisions for liabilities and charges

	Group	
	2006	2005
	£000's	£000's
Share of losses of joint venture (see note 12)	209	708
Pensions provision (see note 28 (b))	834	645
Deferred taxation	16,347	7,047
Transfers	10,702	2,192
	<u>28,092</u>	<u>10,592</u>

The transfers provision relates to the probable additional transfer costs payable based on the players concerned achieving a specified number of appearances.

The deferred tax charge for the year was £9.30 million (see note 8) (2005 - £4.76 million).

	Group	
	2006	2005
	£000's	£000's
Deferred tax provision		
Deferred tax in respect of:		
Player registrations at start of year	85	127
Released to profit and loss account	(85)	(42)
Player registrations at end of year	-	85
Corporation tax deferred by accelerated capital allowances	6,216	3,347
Interest capitalised and other timing differences	10,131	4,132
Tax losses available	-	(517)
Total provision for deferred taxation	<u>16,347</u>	<u>7,047</u>



NOTES TO THE ACCOUNTS

For the year ended 31 May 2006

19. Called up share capital

	2006	2005
	Number	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
	<u> </u>	<u> </u>
Allotted, issued and fully paid	£	£
Subscriber Ordinary shares of £1	2	2
Ordinary shares of £1 each	62,216	62,216
	<u> </u>	<u> </u>

The two Subscriber Ordinary shares carry no right to vote or to income and a deferred right to a return of capital paid up.

20. Share premium

	Group	Company
	£000's	£000's
Balance at 1 June 2005 and 31 May 2006	29,997	29,997
	<u> </u>	<u> </u>

21. Other reserves

	Merger reserve
	£000's
Group	
Balance at 1 June 2005 and 31 May 2006	26,699
	<u> </u>

22. Profit and loss account

	Group	Company
	Profit and	Profit and
	loss account	loss account
	£000's	£000's
Balance at 31 May 2005	65,898	60,829
Profit for the year	7,902	42,655
	<u> </u>	<u> </u>
Balance at 31 May 2006	73,800	103,484
	<u> </u>	<u> </u>

23. Reconciliation of movement in equity shareholders' funds

	2006	2005
	£000's	£000's
Profit for the year	7,902	8,293
Share issue in year	-	30,000
Opening equity shareholders' funds	122,656	84,363
	<u> </u>	<u> </u>
Closing equity shareholders' funds	130,558	122,656
	<u> </u>	<u> </u>





NOTES TO THE ACCOUNTS

For the year ended 31 May 2006

24. Notes to the consolidated cash flow statement

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

	2006	2005
	£000's	£000's
Operating (loss)/profit	(3,939)	17,638
Amortisation of player registrations	15,401	14,993
Profit on disposal of tangible fixed assets	(19)	(41)
Depreciation	2,384	1,933
Increase in stock	(18,162)	(8,125)
(Increase)/decrease in debtors	(6,306)	12,156
Increase in creditors	51,715	42,605
Net cash inflow from operating activities	<u>41,074</u>	<u>81,159</u>

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

	2006	2005
	£000's	£000's
(Decrease)/increase in cash for the period	(36,031)	45,626
Cash inflow from increase in debt	<u>(70,373)</u>	<u>(55,529)</u>
Change in net debt resulting from cash flows	(106,404)	(9,903)
Change in debt resulting from non cash changes	(2,409)	(2,160)
Net debt at start of year	<u>(153,331)</u>	<u>(141,268)</u>
Net debt at end of year	<u>(262,144)</u>	<u>(153,331)</u>

Bank balances, included in net debt of £196,000 (2005 - £184,000) are held in an employee benefit trust at the discretion of the trustees.

(c) Analysis of changes in net debt

	At 1 June	Non cash	Cash	At 31 May
	2005	changes	flows	2006
	£000's	£000's	£000's	£000's
Cash at bank and in hand	71,629	-	(36,031)	35,598
	<u>71,629</u>	<u>-</u>	<u>(36,031)</u>	<u>35,598</u>
Debt due within one year – bank loans	(19,572)	-	(3,244)	(22,816)
Debt due after more than one year - bank loans	(180,559)	(2,114)	(67,088)	(249,761)
Debt due after more than one year - debenture subscriptions	(24,829)	(295)	(41)	(25,165)
Net debt	<u>(153,331)</u>	<u>(2,409)</u>	<u>(106,404)</u>	<u>(262,144)</u>

Non cash changes represent £2,114,000 in respect of the amortisation of costs of raising finance and £295,000 in respect of rolled up, unpaid debenture interest.



NOTES TO THE ACCOUNTS

For the year ended 31 May 2006

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

(d) Gross cash flows

	2006 £000's	2005 £000's
Player registrations:		
Payments for purchase of players	(23,754)	(14,598)
Receipts from sale of players	11,961	5,862
	<u>(11,793)</u>	<u>(8,736)</u>
Returns on investment and servicing of finance:		
Interest received	2,643	1,957
Finance charges paid	(17,270)	(16,029)
	<u>(14,627)</u>	<u>(14,072)</u>
Capital expenditure:		
Payments to acquire tangible fixed assets	(117,720)	(97,854)
Receipts from sale of tangible fixed assets	27	41
	<u>(117,693)</u>	<u>(97,813)</u>
Financing:		
Repayment of borrowings	(19,270)	(18,572)
Increase in short term borrowings	89,602	74,269
Costs of raising finance	41	(168)
Total debt financing	70,373	55,529
Issue of shares	-	30,000
	<u>70,373</u>	<u>85,529</u>

25. Leasing commitments

Commitments due under operating leases for the period to 31 May 2007 are in respect of:

	2006		2005	
	Land and buildings £000's	Other £000's	Land and buildings £000's	Other £000's
Leases expiring in:				
Within one year	-	4	-	196
Two to five years	-	170	-	3
Over five years	767	-	727	-
	<u>767</u>	<u>174</u>	<u>727</u>	<u>199</u>





NOTES TO THE ACCOUNTS

For the year ended 31 May 2006

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 £3.5 million (2005 - £4.0 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 £5.7 million (2005 - £5.5 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.

27. Related party transactions

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

	2006	2005
	Income/ (charge)	Income/ (charge)
	£000's	£000's
Provision of office services	74	72
Merchandising and advertising sales	(786)	(897)

At 31 May 2006 the balance owing from the Group to Arsenal Broadband Limited was £997,000 (2005 - £702,000).





NOTES TO THE ACCOUNTS

For the year ended 31 May 2006

28. Pensions

a) *Defined contribution schemes*

Total contributions charged to the profit and loss account during the year amounted to £6,285,000 (2005 - £3,399,000).

b) *Defined benefit scheme*

	2006	2005
	£000's	£000's
Provision at start of year	645	982
Payments in year	(303)	(337)
Increase in provision	492	-
Provision at end of year	<u>834</u>	<u>645</u>

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 2005 and indicated that the contribution required from the Group towards making good this deficit was £0.87 million at 1 April 2006 (the total deficit in the Scheme at this date was £8.8 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 2006. Payments for the year amounted to £302,536 and the profit and loss account charge was £368,836 (2005 - £170,000).

29. Post balance sheet events

a) *Refinancing of debt*

On 25 July 2006 the Group successfully completed a bond issue the proceeds of which have been used to re-finance the project finance bank loans (£254.3 million outstanding at 31 May 2006) which the Group had used to fund the development of Emirates Stadium.

The bond issue comprised £210 million of fixed rate bonds, with a term of 25 years, which will bear interest at 5.1418% per annum and £50 million of floating rate bonds, also with a term of 25 years, which will bear interest at LIBOR for three month deposits plus a margin of 0.22%. The Group has entered into interest rate swaps which fix the LIBOR element of the floating rate bond costs at 5.75% per annum for the entire term.

The bonds are guaranteed as to scheduled payments of principal and interest by certain members of the Group and by Ambac Assurance UK Limited. The Group will pay Ambac Assurance UK Limited annual guarantee fees at a rate of 0.65% of the bond principal outstanding.

In addition, the Group has agreed a development bank loan facility to be used in funding the planned redevelopment of Highbury into residential units. The £125 million facility has a 38 month term at an interest rate based on LIBOR plus a margin variable between 1.5 and 1.35% depending on the level of pre-sales of residential units. Interest rate swaps have been entered into which fix the LIBOR element of the bank loan costs at 5.17% in respect of 80% of the loan principal. An initial drawing on this facility has been used to refinance the bank loan (£23.7 million outstanding at 31 May 2006) which the Group already had in place in relation to the development of Highbury.





NOTES TO THE ACCOUNTS

For the year ended 31 May 2006

29. Post balance sheet events (continued)

a) *Refinancing of debt (continued)*

The tables below show the impact of the refinancing on the Group's outstanding debt balances at 31 May 2006 by restating the year end debt balances as though the refinancing was already in place:

	Fixed rate 2006 £000's	Floating rate 2006 £000's	Interest free 2006 £000's	Total 2006 £000's	Weighted average fixed rate %	Weighted average period for which rate is fixed YRS
Bank loans (see note 17)	280,305	3,730	-	284,035	8.0	10
Bank loans as refinanced	279,289	4,746	-	284,035	6.0	23

Borrowings are repayable as follows:

Bank loans and bonds

	2006 refinanced £000's	2005 (note 16) £000's
Between one and two years	5,027	32,463
Between two and five years	40,505	53,488
After five years	<u>227,741</u>	<u>173,377</u>
	273,273	259,328
Within one year	<u>10,762</u>	<u>24,707</u>
Total bank loans	<u>284,035</u>	<u>284,035</u>

As a result of the refinancing the un-amortised costs of raising the project finance bank loans (which were being written off over the term of the loans in accordance with the Group's accounting policy for such costs) will be written-off immediately giving rise to an exceptional charge against profits of £11.2 million in the year ending 31 May 2007. In addition, the interest rate swaps taken out to fix the rate of interest applicable to the project finance bank loans have been terminated as part of the refinancing at a cost of £7.8 million and this amount will also be reported as exceptional charge against profits for the year ending 31 May 2007.

b) *Completion of Emirates Stadium*

Since the balance sheet date the construction work on Emirates Stadium has been completed and the new stadium has been opened. From the date of opening, finance costs in respect of the debt used to fund the stadium's development will be expensed as incurred, rather than capitalised, and depreciation will start to be charged on the stadium.

c) *Sale of property development site*

In June 2006 a subsidiary company completed the sale of a property development site at Drayton Park for a consideration of approximately £23.5 million.

d) *Player transactions*

Since the end of the financial year a subsidiary company, Arsenal Football Club plc, has contracted for the purchase, sale and loan of various players. The net receivable resulting from these transactions, taking into account the applicable levies, is £3.1million. These transactions will be accounted for in the year ending 31 May 2007.



FIVE YEAR SUMMARY

	2002	2003	2004	2005	2006
Profit and Loss Account	£000's	£000's	£000's	£000's	£000's
Group Turnover	90,967	117,831	156,887	138,395	137,237
Operating profit before player trading and exceptional costs	7,292	25,319	36,162	32,631	11,323
Operating expenses - player registrations	(17,681)	(18,774)	(19,637)	(14,993)	(15,262)
Operating expenses - exceptional	(15,206)	(2,500)	(6,269)	-	-
Operating (loss)/profit	(25,595)	4,045	10,256	17,638	(3,939)
Share of results of joint venture	(512)	(162)	(67)	204	499
Profit on disposal of player registrations	2,873	1,370	2,282	2,894	19,150
Net interest	891	(721)	(1,894)	(1,471)	175
Profit / (loss) before tax	(22,343)	4,532	10,577	19,265	15,885
Profit / (loss) after tax	(20,562)	4,011	8,152	8,293	7,902
Earnings per share	(£348.82)	£68.04	£138.29	£138.91	£127.01
Balance Sheet					
Tangible fixed assets	46,430	124,770	209,615	314,822	451,501
Intangible fixed assets	53,060	39,396	34,989	28,983	66,555
Net current (liabilities)/assets	(4,595)	(66,014)	(7,479)	28,149	(38,166)
Long term creditors and provisions	(22,692)	(21,938)	(152,762)	(249,298)	(349,332)
Net assets	72,203	76,214	84,363	122,656	130,558
Share capital	59	59	59	62	62
Share premium	-	-	-	29,997	29,997
Reserves	72,144	76,155	84,304	92,597	100,499
Shareholders funds	72,203	76,214	84,363	122,656	130,558
Net assets per share	£1,224.88	£1,292.92	£1,431.17	£1,971.45	£2,098.43
Playing record					
FA Premier League	Champions	2nd	Champions	2nd	4th
FA Challenge Cup	Winners	Winners	Semi-finalists	Winners	4th round
Europe	2nd round	2nd round	Quarter finals	1st K/O round	Finalists
	Champions League				





ARSENAL HOLDINGS PLC - NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the fourth Annual General Meeting of the shareholders of Arsenal Holdings plc will be held at Emirates Stadium, London N7 on Thursday 19 October 2006, 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 2006.
2. To re-elect D.B.Dein, a Director, who retires by rotation in accordance with article 88 of the articles of association.
3. To re-elect K.J.Friar OBE, a Director, who retires by rotation in accordance with article 88 of the articles of association.
4. To re-elect Lord Harris of Peckham, a Director, who was appointed to the Board on 24th November 2005 and who retires in accordance with article 86 of the articles of association.
5. To re-elect Sir Chips Keswick, a Director, who was appointed to the Board on 24th November 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 consider and, if thought fit, pass the following Resolution as an Ordinary Resolution, viz:

THAT the Board be and it is hereby generally and unconditionally authorised in substitution for all subsisting authorities to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £1, which authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (unless previously revoked or varied by the Company in general meeting).

8. To consider and, if thought fit, pass the following Resolution as a Special Resolution, viz:

THAT the Board be and it is hereby empowered, pursuant to Section 95 of the Companies Act 1985, to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred by the previous resolution and/or where such allotment constitutes an allotment of equity securities by virtue of section 94(3A) of the said Act, as if sub section (1) of Section 89 of the said Act did not apply to any such allotment, PROVIDED THAT this power shall be limited to:

- (a) the allotment of equity securities up to an aggregate nominal value of £1, and
- (b) shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution.

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

By Order of the Board
D MILES
SECRETARY

Registered Office:
Highbury House,
75 Drayton Park
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 R C L Carr Esq., whom failing D D Fizman Esq., whom failing K J Friar OBE, whom failing K G Edelman Esq., whom failing Lady Nina Bracewell-Smith, whom failing Lord Harris of Peckham, whom failing Sir Chips Keswick, as my proxy to vote for me on my behalf at the Annual General Meeting of the Company to be held on Thursday 19 October 2006, and at any adjournment thereof.

Dated this _____ day of _____ 2006

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* |
| Resolution No.8 | FOR* / AGAINST* |
| Resolution No.9 | 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.





THE FINAL SALUTE



SECOND FOLD

BUSINESS REPLY SERVICE
Licence No BS LON 11449



Arsenal Holdings PLC
Highbury House
75 Drayton Park
LONDON
N5 1BR

FIRST FOLD

THIRD FOLD AND TUCK IN





Emirates Stadium, London N7

