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THE ARSENAL FOOTBALL CLUB PLC

NOTICE IS HEREBY GIVEN that the Eighty Seventh Annual General Meeting of the shareholders of The Arsenal Football Club plc will be held at the Arsenal Stadium, Avenell Road, Highbury, London N5 1BU on Thursday 28 August, 1997, at 12 noon precisely 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 31st May, 1997.
2. To re-elect Directors.
3. To re-appoint the Auditors and to authorise the Directors to fix their remuneration and
4. To transact any other ordinary business of the meeting.

And the following special business, viz:-

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

SPECIAL RESOLUTION

That the Articles of Association of the company be varied by adding the following heading and new Article after Article 107A:

PRESIDENT / VICE PRESIDENT(S)

- 107B The Directors may appoint any person to be the President and any person or persons to be Vice President(s) of the Company for such term or terms as the Directors shall think fit. Any such person shall not by virtue of such an appointment be a director or member of the Company

Dated this 18th day of July 1997

By Order of the Board
K.J. FRIAR,
Secretary,



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

Note: A member of the Company who is entitled to attend and vote may appoint another person (whether a member or not) as his proxy to attend and vote instead of him.

A form of proxy is enclosed with this annual report for the use of members who are unable to attend the meeting and should be deposited at the Registered Office of the Company not less than 48 hours before the time of the meeting.

Admission to the meeting will be upon production of an admission card only and any person attending as a proxy (whether a member or not) must produce the admission card.



THE ARSENAL FOOTBALL CLUB PLC

Directors

P.D. HILL-WOOD, Esq. (Chairman)

D.B. DEIN, Esq. (Vice Chairman)

Sir ROGER GIBBS

C.E.B.L. CARR, Esq.

R.C.L. CARR, Esq.

D.D. FISZMAN, Esq.

K.J. FRIAR, Esq. (Managing)

Secretary

K.J. FRIAR

Manager

A. WÈNGER

Auditors

KIDSONS IMPEY

Chartered Accountants and Registered Auditors

Spectrum House, 20-26 Cursitor Street, London EC4A 1HY

Registrars

CI REGISTRARS LIMITED

Victoria Street, Luton

Bedfordshire LU1 2PZ

Registered Office

ARSENAL STADIUM

Avenell Road, Highbury, London N5 1BU

CHAIRMAN'S STATEMENT

The Directors have pleasure in submitting their 87th Annual Report to the members, together with the Audited Accounts for the year ended 31st May 1997.

The season started somewhat hesitantly with changes in our management structure with the departure of Bruce Rioch early in August. Stewart Houston took over the reins until mid-September when he tendered his resignation in order to join Queens Park Rangers.

Arsène Wenger was formally appointed as our manager on 30th September joining us from Grampus 8 of Japan and since that time has brought much stability to the Club. Pat Rice, who acted as caretaker manager whilst we were waiting for Arsène to arrive, is now first team coach, and we have secured the services of the former Yugoslav International player Boro Primorac to assist Pat.

Our early exit from the Cup competitions was a great disappointment, but looking positively, ensured the teams focus on achieving success in the FA Premier League. To finish 3rd as we did on goal difference, compounded the seasons frustration in missing out so narrowly on the remaining place in the European Champions League. However, we are delighted that we will be participating in the UEFA Cup once more and we are sure that lessons will have been learned from last seasons campaign when we went out to Borussia Monchengladbach in the first round.

There have been many changes throughout the last 12 months. Several players including Paul Read, David Hillier, Andy Linighan, Eddie McGoldrick, Paul Dickov, John Hartson, Matthew Rose, Steve Morrow, Lee Harper and Paul Merson have moved on to new Clubs, and to each and every one of them I wish to place on record our gratitude for the enormous part they have played and wish them all success with their new Clubs.

Many new players have arrived. Patrick Vieira has established himself very quickly in the Premier League and has subsequently been joined by Rème Garde, Nicolas Anelka, Emmanuel Petit and Gilles Grimandi from France.

Alex Manninger from Austria, Luis Boa Morte from Portugal, Alberto Mendez from Germany and Marc Overmars from Holland have added a further new dimension to our staff. Matthew Upson, the very promising young England under 20's player has joined us from Luton Town and overall the squad has been increased both numerically and in International experience.

It was a particular source of pride to see many of our players honoured at International level during the recent "Le Tournoi" competition played in France. Our congratulations are extended to those players involved who all did themselves and our Club great credit. David Seaman was awarded his MBE earlier in the year and to him too, we offer our very sincere congratulations.

Mention should also be made of the success achieved by both our Youth Team and the Ladies Team. The Youth Team squad progressed to the final of the Southern Junior Floodlit Cup where they lost to Crystal Palace over two legs. The Ladies Team won the F.A. National Premier League Championship for the third time in five years. Our congratulations to everyone concerned.

Almost exactly 12 months ago Liam Brady was appointed as "Head of Youth Development". He has the task of recruiting and developing talented young players and with his first hand experience, having come through the Arsenal ranks himself, is an ideal appointment for the Club. He has since been joined by our former player, David Court, and only recently by Don Howe who has returned once more to take up the new position as Head of Youth Coaching.

CHAIRMAN'S STATEMENT (continued)

The "Bosman" ruling has thrown the transfer market into turmoil and indeed has had a dramatic effect on the spiralling players' wage bill. Therefore, the need for the Club to continue to produce its own players is ever more essential and this particular aspect of our business is being tackled with great enthusiasm. Hopefully the results of our new Youth Development initiative will soon be evident although of course this is undoubtedly a long term programme.

In response to the ever expanding needs of our business, we have now appointed Clare Tomlinson as Head of Communications. Clare joins us from The Football Association with much experience of the media world and I am sure has already added considerable value to our organisation.

It is now five years since the inception of the Gunners Community Fund, which is a charity established by the Club. The aims of the Fund are to support charities and self help groups within 1000 metres of the Stadium. A large number have benefited from donations which have been distributed over the last five years and now exceed £100,000. The local area straddles three independent Boroughs and is therefore a part of London which finds difficulty in gaining adequate funding to support its growing needs and activities. The Board are delighted that they are able to help in such a positive manner.

The Notice for this years Annual General Meeting includes as an item of special business a minor change to the Articles of Association by the introduction of a new Article to formalise the appointment of the honorary positions of President and Vice President(s). Some of you may remember that many years ago we invited Sir Stanley Rous to become an honorary President of the Club in view of his distinguished services to football and last year we invited Sir Robert Bellinger to become the President of the Club following his retirement.

It is the Directors' view that the scope for the honorary position should be extended to include Vice President(s) so that the Board can appoint persons who have given, in the past, valuable service or support to the Club, or whose association with the Club would be beneficial to it. The appointment would not of itself make any such person a Director: it is purely an honorary position.

As you will have seen from my earlier comments, we have again invested substantial sums on improving our playing squad, much of which has been offset by the income from player sales. The "Jean Marc Bosman" decision is undoubtedly having a major impact, particularly on players salaries, the total of which has escalated by approximately 50% this year and continues on an upward trend.

The internal transfer system within the UK will surely be tested in the near future, which highlights the need to produce our own talent.

Turnover has risen by almost 30% with a healthy increase from broadcasting, other commercial activities and retail income, whilst our operating expenses including employment costs have risen by approximately 36%.

Overall, our operating profit this year was £1,900,195, before taking account of net transfer fees payable of £3,475,645 resulting in a loss before tax of £1,575,450.

Finally, on behalf of my fellow Directors, I would like to thank the management, staff and players for their contribution and for the continued commitment and support of our sponsors and supporters.

Peter Hill-Wood
CHAIRMAN

P. Hill-Wood

THE ARSENAL FOOTBALL CLUB PLC

DIRECTORS' REPORT – 31st May 1997

The directors present their annual report and the audited financial statements of the company for the year ended 31st May 1997.

PRINCIPAL ACTIVITIES

The principal activity of the company is that of a professional football club and the related commercial activities.

PROFITS AND DIVIDENDS

The results for the year are set out on page 7 and are reviewed in the Chairman's Statement.

The directors do not recommend the payment of a dividend.

DIRECTORS AND DIRECTORS' SHAREHOLDINGS

The directors of the company at 31st May 1997, all of whom served throughout the year, together with details of their interests in the company's share capital, are set out below:-

	Ordinary Shares of £1 each	
	At 31st May 1997	At 31st May 1996
P.D. Hill-Wood	348	448
D.B. Dein	13,331	16,331
Sir Roger Gibbs	200	200
C.E.B.L. Carr	4,842	4,120
R.C.L. Carr	14,735	10,301
K.J. Friar	200	200
D.D. Fiszman	15,339	15,206

Of the above interests in shares, Mr D.B. Dein and Mr. D.D. Fiszman have an interest in the same 4,259 shares. In addition, of the above interests in shares, Mr. C.E.B.L. Carr and Mr. R.C.L. Carr have an interest in the same 4,842 shares.

In accordance with the provisions of Article 90 of the Articles of Association R.C.L. Carr and Sir Roger Gibbs retire by rotation and, being eligible, offer themselves for re-election.

In addition, Sir Robert Bellinger served as a director until the date of his retirement on 22 August 1996.

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year, the company made donations for charitable purposes amounting to £19,176 (1996 - £18,871).

CREDITOR PAYMENT POLICY

The company's policy is to pay all creditors within their prescribed terms and in accordance with contractual and other legal obligations. Advantage is taken of available discounts for prompt payment whenever possible.

THE ARSENAL FOOTBALL CLUB PLC

DIRECTORS' REPORT – 31st May 1997 (continued)

PLAYERS

In accordance with previous practice and the accounting policy adopted for transfer fees as set out in the notes to the financial statements, no value is included in the balance sheet in respect of players. The directors acknowledge that this treatment is extremely conservative, in view of the significant potential transfer value of the playing staff. Nevertheless, the directors consider it inappropriate at the present time to place a value on this particular asset.

DIRECTORS' RESPONSIBILITIES

We are required under company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company, and of the profit or loss of the company for that period.

In preparing these financial statements we are required to:

- select suitable accounting policies and apply them consistently;
- make reasonable and prudent judgements and estimates;
- state whether accounting standards have been followed, and give details of any departures; and
- prepare the financial statements on a going concern basis unless in our view the company will be unable to continue in business.

We are also responsible for:

- keeping proper accounting records;
- safeguarding the company's assets; and
- taking reasonable steps for the prevention and detection of fraud.

AUDITORS

Kidsons Impey have agreed to offer themselves for re-election as auditors of the company.

By order of the Board

K.J. Friar

Secretary

Registered Office:

Arsenal Stadium,
Avenell Road,
Highbury,
London N5 1BU.

18th July 1997



THE ARSENAL FOOTBALL CLUB PLC

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MAY 1997

	Note	1997	1996
		£	£
TURNOVER	2	27,158,007	20,975,177
Costs and overheads less other income	3	<u>(25,257,812)</u>	<u>(18,430,782)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TRANSFER FEES		1,900,195	2,544,395
Transfer fees.....	4	<u>(3,475,645)</u>	<u>(6,155,564)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,575,450)	(3,611,169)
Taxation.....	7	<u>307,122</u>	<u>1,325,331</u>
LOSS AFTER TAXATION RETAINED FOR THE FINANCIAL YEAR.	15	<u><u>(1,268,328)</u></u>	<u><u>(2,285,838)</u></u>
All trading resulted from continuing operations.			

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1997	1996
	£	£
Loss for the financial year	(1,268,328)	(2,285,838)
Donation received	<u>—</u>	<u>12,175</u>
	<u><u>(1,268,328)</u></u>	<u><u>(2,273,663)</u></u>

The notes on pages 10 to 17 form part of these financial statements.

THE ARSENAL FOOTBALL CLUB PLC

BALANCE SHEET 31st MAY 1997

	Note	1997	1996
		£	£
FIXED ASSETS			
Tangible assets	8	28,575,881	28,299,833
CURRENT ASSETS			
Stocks	9	599,819	572,849
Debtors	10	6,607,463	4,064,447
Cash at bank and in hand		<u>1,491,282</u>	<u>2,700,490</u>
		8,698,564	7,337,786
CREDITORS			
Amounts falling due within one year	11	<u>(13,305,815)</u>	<u>(9,464,661)</u>
NET CURRENT LIABILITIES		<u>(4,607,251)</u>	<u>(2,126,875)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		23,968,630	26,172,958
CREDITORS			
Amounts falling due after more than one year	12	<u>(15,201,500)</u>	<u>(16,137,500)</u>
NET ASSETS		<u>8,767,130</u>	<u>10,035,458</u>
EQUITY CAPITAL AND RESERVES			
Called up equity share capital	14	56,000	56,000
Share premium account	15	237,201	237,201
Building reserve	15	928,175	928,175
Profit and loss account	15	<u>7,545,754</u>	<u>8,814,082</u>
EQUITY SHAREHOLDERS' FUNDS		<u>8,767,130</u>	<u>10,035,458</u>

The financial statements on pages 7 to 17 were approved by the board of directors on 18th July 1997.

On behalf of the Board

P.D. HILL-WOOD)

) Directors

D.B. DEIN)

The notes on pages 10 to 17 form part of these financial statements.

THE ARSENAL FOOTBALL CLUB PLC

CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MAY 1997

	1997	1996
	£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES	5,003,255	4,965,694
Transfer fees.....	(4,319,186)	(5,280,564)
Returns on investment and servicing of finance.....	(76,872)	98,297
Taxation.....	151,123	(454,669)
Capital expenditure	(1,967,528)	(1,519,880)
	(1,209,208)	(2,191,122)
Financing.....	<u>—</u>	<u>12,175</u>
DECREASE IN CASH	<u>(1,209,208)</u>	<u>(2,178,947)</u>

See note 21 for further details.

The notes on pages 10 to 17 form part of these financial statements.

THE ARSENAL FOOTBALL CLUB PLC

NOTES ON FINANCIAL STATEMENTS – 31st MAY 1997

1. PRINCIPAL ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost accounting rules and in accordance with the applicable accounting standards, except as stated below.

TURNOVER

Turnover represents income from football and related activities.

DEPRECIATION

Depreciation is calculated to write off the cost of plant, equipment, motor vehicles and certain freehold improvements included in freehold property in equal annual instalments over their estimated useful lives at rates ranging from 7 to 25 per cent.

Leasehold properties are depreciated over the period of the leases in equal annual instalments.

Statement of Standard Accounting Practice Number 12 requires that provision be made for depreciation of fixed assets having a finite useful life. However, it is company policy to maintain freehold property in such condition that its value is not diminished by the passage of time and the related maintenance expenditure is charged to the profit and loss account in the year it is incurred. Therefore any element of depreciation is considered to be immaterial and no provision is made.

STOCKS

Stocks are stated at the lower of cost and net realisable value.

TRANSFER FEES

Transfer fees are charged or credited to the profit and loss account in the year in which they are contracted.

Where the transfer contract specifies that additional fees are due, contingent on a player achieving a specified number of appearances for his new club or some other contingent event set out in the transfer contract, these additional fees are charged or credited to the profit and loss account in the year they fall due.

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.

SIGNING ON FEES

The terms of contract of the company's playing staff provide for the payment of signing on fees payable over the duration of the contract term. Signing on fees are charged to the profit and loss account at their due dates and are included within wages and salaries.

DEFERRED INCOME

Deferred income represents licence fees for executive boxes which are credited to the profit and loss account over the period of the licence, income from sponsorship agreements which is credited to the profit and loss account over the period of the agreement and season ticket renewals for the 1997/98 season.

LEASES

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

GRANTS

Grants received are matched with the related expenditure and the amount of the grant is deducted from the cost of the related asset. The directors believe that this is a fairer presentation of the facts than the accounting treatment required by Statement of Accounting Practice Number 4 (Revised).

PENSIONS

The company makes contributions on behalf of employees and directors to a number of independently controlled defined contribution schemes the principal one of which is The Football League Pension and Life Assurance Scheme. Contributions are charged to the profit and loss account over the period to which they relate. The assets of all schemes are held in funds independent from the company.

THE ARSENAL FOOTBALL CLUB PLC

NOTES ON FINANCIAL STATEMENTS – 31st MAY 1997 (continued)

1. PRINCIPAL ACCOUNTING POLICIES (continued)

DEFERRED TAX

No provision has been made for deferred tax on the basis that the potential liability is not likely to crystallise in the foreseeable future. Details of the amount of deferred tax not provided are shown in note 13 of the financial statements.

2. TURNOVER

Turnover comprises the following:

	1997 £	1996 £
Gate receipts	10,631,845	9,976,421
Broadcasting and other commercial activities.....	12,046,867	7,129,927
Retail income	4,479,295	3,868,829
	<u>27,158,007</u>	<u>20,975,177</u>

3. COSTS AND OVERHEADS LESS OTHER INCOME

Employment costs.....	15,278,711	10,062,063
Depreciation.....	1,191,480	1,106,885
Other operating charges.....	8,710,749	7,360,131
Interest receivable.....	(34,537)	(100,251)
Interest payable.....	111,409	1,954
	<u>25,257,812</u>	<u>18,430,782</u>

Other operating charges include:-

(Profit) on disposal of fixed assets	-	(7,730)
Auditors' remuneration – audit	20,500	20,000
– non-audit services	37,300	32,970
Operating lease payments – plant and machinery	20,144	18,000
– other	142,572	167,104

Employment costs are stated after charging exceptional costs of £660,000 consisting of payments made to employees whose contracts of employment were terminated during the year

4. TRANSFER FEES

Transfer fees payable	10,545,145	12,055,564
Transfer fees receivable	(7,069,500)	(5,900,000)
	<u>3,475,645</u>	<u>6,155,564</u>

5. DIRECTORS EMOLUMENTS

Management remuneration including pension contributions	253,616	253,158
Remuneration, excluding pension contributions, of the highest paid director	134,931	134,758
Directors pensions:-		
Total contributions paid in the year.....	13,000	13,000
Contributions in respect of highest paid director	13,000	13,000

THE ARSENAL FOOTBALL CLUB PLC

NOTES ON FINANCIAL STATEMENTS – 31st MAY 1997 (continued)

6. EMPLOYEES

	1997 Number	1996 Number
The average number of persons employed by the company during the year was:		
Playing staff	48	53
Training staff	19	12
Administrative staff	69	65
Ground staff	9	9
	<u>145</u>	<u>139</u>
Staff costs:	£	£
Wages and salaries	13,382,828	8,758,187
Social security costs	1,181,105	774,923
Other pension costs	714,778	528,953
	<u>15,278,711</u>	<u>10,062,063</u>

7. TAX ON LOSS ON ORDINARY ACTIVITIES

United Kingdom corporation tax based on the loss for the year	(325,000)	(1,325,000)
Adjustment in respect of prior years	17,878	(331)
	<u>(307,122)</u>	<u>(1,325,331)</u>

8. TANGIBLE FIXED ASSETS

	Freehold Properties £	Short Leasehold Properties £	Plant and Equipment £	Motor Vehicles £	Total £
Cost					
At 1st June 1996	26,417,328	732,834	5,616,140	113,645	32,879,947
Additions	863,376	6,558	574,176	23,418	1,467,528
At 31st May 1997	<u>27,280,704</u>	<u>739,392</u>	<u>6,190,316</u>	<u>137,063</u>	<u>34,347,475</u>
Depreciation					
At 1st June 1996	1,538,515	424,607	2,574,574	42,418	4,580,114
Charge for year	552,213	17,400	605,947	15,920	1,191,480
At 31st May 1997	<u>2,090,728</u>	<u>442,007</u>	<u>3,180,521</u>	<u>58,338</u>	<u>5,771,594</u>
Net Book Amount					
At 31st May 1997	<u>25,189,976</u>	<u>297,385</u>	<u>3,009,795</u>	<u>78,725</u>	<u>28,575,881</u>
At 31st May 1996	<u>24,878,813</u>	<u>308,227</u>	<u>3,041,566</u>	<u>71,227</u>	<u>28,299,833</u>

THE ARSENAL FOOTBALL CLUB PLC

NOTES ON FINANCIAL STATEMENTS – 31st MAY 1997 (continued)

8. TANGIBLE FIXED ASSETS (continued)

Grants received from The Football Trust during the year, totalling £600,000 have been deducted from the cost of fixed assets in line with the company's accounting policy set out in note 1.

At 31st May 1996 the company had the following capital commitments:-

	1997 £	1996 £
Authorised and contracted for	—	1,150,000

9. STOCKS

Goods for resale	599,819	572,849
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10. DEBTORS

Trade debtors	466,224	200,948
Other debtors	4,285,729	2,332,043
Prepayments and accrued income	237,511	69,456
Corporation tax recoverable	1,617,999	1,462,000
	<u>6,607,463</u>	<u>4,064,447</u>

Other debtors include £3,625,000 in respect of player transfers (1996: £1,825,000). Other debtors also include £88,000 (1996 - £105,000) receivable in more than one year in respect of executive box licences being paid on an instalment basis.

11. CREDITORS: Amounts falling due within one year

Trade creditors	409,491	437,494
Other tax and social security	1,612,653	665,196
Other creditors	5,344,420	4,419,622
Accruals and deferred income	5,939,251	3,942,349
	<u>13,305,815</u>	<u>9,464,661</u>

Other creditors include £4,718,959 (1996: £3,750,000) in respect of player transfers.

12. CREDITORS: Amounts falling due after more than one year

Debenture subscriptions	14,437,500	14,437,500
Other creditors	250,000	750,000
Deferred income	514,000	950,000
	<u>15,201,500</u>	<u>16,137,500</u>

The debenture subscriptions have been applied in the redevelopment of the Highbury Stadium. Under the issue terms the debentures are repayable at par after 150 years. The debentures are interest free.

THE ARSENAL FOOTBALL CLUB PLC

NOTES ON FINANCIAL STATEMENTS – 31st MAY 1997 (continued)

13. DEFERRED TAXATION

	1997 £	1996 £
Unprovided deferred taxation:		
Corporation tax deferred by accelerated capital allowances.....	1,215,000	1,095,000
Other timing differences	(3,300)	(3,300)
	<u>1,211,700</u>	<u>1,091,700</u>

14. CALLED UP EQUITY SHARE CAPITAL

AUTHORISED

Ordinary shares of £1 each	<u>56,000</u>	<u>56,000</u>
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ALLOTTED, ISSUED AND FULLY PAID

Ordinary shares of £1 each	<u>56,000</u>	<u>56,000</u>
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15. SHARE PREMIUM AND OTHER RESERVES

	Share Premium Account £	Building Reserve £	Profit and Loss Account £	Total £
Balance at 31st May 1996	237,201	928,175	8,814,082	9,979,458
(Loss) for the year	–	–	(1,268,328)	(1,268,328)
Balance at 31st May 1997	<u>237,201</u>	<u>928,175</u>	<u>7,545,754</u>	<u>8,711,130</u>

16. RECONCILIATION OF EQUITY SHAREHOLDERS' FUNDS

	1997 £	1996 £
Opening equity shareholders' funds	10,035,458	12,309,121
Retained (loss) for the financial year	(1,268,328)	(2,285,838)
Donation received	–	12,175
Closing equity shareholders' funds	<u>8,767,130</u>	<u>10,035,458</u>

THE ARSENAL FOOTBALL CLUB PLC

NOTES ON FINANCIAL STATEMENTS – 31st MAY 1997 (continued)

17. LEASING COMMITMENTS

Commitments due under operating leases for the period to 31st May 1998 are:-

	1997		1996	
	<i>Land and Buildings</i>	<i>Other</i>	<i>Land and Buildings</i>	<i>Other</i>
	£	£	£	£
Leases expiring in:-				
Two to five years	95,000	4,380	95,000	–
Over five years.....	40,000	–	40,000	–
	<u>135,000</u>	<u>4,380</u>	<u>135,000</u>	<u>–</u>

18. CONTINGENCIES

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 company's accounting policy for transfer fees any additional fees, which may be payable under these agreements, will be charged to the profit and loss account in the year that the number of appearances is achieved or the specified future events occur. Accordingly no provision has been made in these financial statements in respect of potential liabilities in this respect. It is not practical to quantify the company's future liabilities in relation to appearance payments or other matters as the future performance of the players concerned cannot be forecast with any certainty.

19. RELATED PARTY TRANSACTIONS

There were no material transactions with related parties as defined by Financial Reporting Standard Number 8 "Related Party Transactions".

20. POST BALANCE SHEET EVENTS

Since the end of the financial year the company has contracted for the purchase and sale of various players. The net cost of these transfers, taking into account the applicable levies but excluding Value Added Tax, is approximately £2.1 million.

In accordance with the accounting policy for transfers set out in note 1 these transfers will be charged/credited to the profit and loss account in the year ended 31st May 1998.

THE ARSENAL FOOTBALL CLUB PLC

NOTES ON FINANCIAL STATEMENTS – 31st MAY 1997 (continued)

21. CASH FLOW STATEMENT

	1997 £	1996 £
(a) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	1,977,067	2,446,098
Depreciation	1,191,480	1,106,885
(Profit) on fixed asset disposal	–	(7,730)
(Increase) in stock	(26,970)	(122,593)
(Increase)/decrease in debtors	(574,517)	2,263,935
Increase/(decrease) in creditors	2,436,195	(720,901)
Net cash inflow from operating activities	<u>5,003,255</u>	<u>4,965,694</u>
Profit on ordinary activities before transfer fees	1,900,195	2,544,395
Interest receivable	(34,537)	(100,251)
Interest payable	111,409	1,954
Operating profit	<u>1,977,067</u>	<u>2,446,098</u>
(b) Reconciliation of net cash flow to movement in net debt (note d)		£
Decrease in cash in the period		<u>(1,209,208)</u>
Change in net debt		<u>(1,209,208)</u>
Net debt at 1st June 1996		<u>(11,737,010)</u>
Net debt at 31st May 1997		<u>(12,946,218)</u>

THE ARSENAL FOOTBALL CLUB PLC

NOTES ON FINANCIAL STATEMENTS – 31st MAY 1997 (continued)

21. CASH FLOW STATEMENT (continued)

(c) Gross cash flows	1997 £	1996 £
Transfers:		
Payments for purchase of players	(9,576,186)	(9,781,750)
Receipts from sale of players	5,257,000	4,501,186
	<u>(4,319,186)</u>	<u>(5,280,564)</u>
Returns on investment and servicing of finance:		
Interest received	34,537	100,251
Interest paid	(111,409)	(1,954)
	<u>(76,872)</u>	<u>98,297</u>
Capital expenditure:		
Payments to acquire tangible fixed assets	(1,967,528)	(1,535,080)
Receipts from sale of tangible fixed assets	–	15,200
	<u>(1,967,528)</u>	<u>(1,519,880)</u>
Financing:		
Donation received	–	12,175

(d) Analysis of changes in net debt

	At 1st June 1996 £	Cash flows £	At 31st May 1997 £
Cash in hand, at bank	2,700,490	(1,209,208)	1,491,282
Debt due after more than one year: – debenture subscriptions	(14,437,500)	–	(14,437,500)
	<u>(11,737,010)</u>	<u>(1,209,208)</u>	<u>(12,946,218)</u>

THE ARSENAL FOOTBALL CLUB PLC

AUDITORS' REPORT – 31st May 1997

Auditors' report to the members of The Arsenal Football Club plc

We have audited the financial statements on pages 7 to 17 which have been prepared under the accounting policies set out on pages 10 and 11.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 6 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

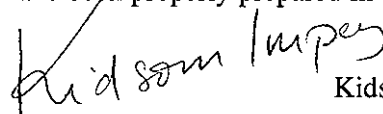
BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31st May 1997 and of its loss for the year ended on that date and have been properly prepared in accordance with the Companies Act 1985.



Kidsons Impey

Registered Auditors

Chartered Accountants

London

18th July 1997

THE ARSENAL FOOTBALL CLUB PLC

PLAYING RECORD SUMMARY – SEASON 1996-97

FIRST TEAM

F.A. PREMIER LEAGUE

	P	W	D	L	F	A	Pts.
HOME	19	10	5	4	36	18	35
AWAY	19	9	6	4	26	14	33
	38	19	11	8	62	32	68

Final Position: 3rd

F.A. CHALLENGE CUP

Round 3		v SUNDERLAND	(H)	DREW	1-1
Round 3	(Replay)	v SUNDERLAND	(A)	WON	2-0
Round 4		v LEEDS UNITED	(H)	LOST	0-1

COCA COLA CUP

Round 3		v STOKE CITY	(A)	DREW	1-1
Round 3	(Replay)	v STOKE CITY	(H)	WON	5-2
Round 4		v LIVERPOOL	(A)	LOST	2-4

UEFA CUP

Round 1	(1st Leg)	v Borussia Monchengladbach	(H)	LOST	2-3
Round 1	(2nd Leg)	v Borussia Monchengladbach	(A)	LOST	2-3
					(lost 4-6 on aggregate)

RESERVE TEAM

FOOTBALL COMBINATION

	P	W	D	L	F	A	Pts.
HOME	11	4	3	4	17	16	15
AWAY	11	6	2	3	32	14	20
	22	10	5	7	49	30	35

Final Position: 6th

FOOTBALL COMBINATION CUP (Group Matches)

v IPSWICH TOWN	(A)	WON	2-0
v LUTON TOWN	(H)	LOST	0-1
v WEST HAM UNITED	(A)	WON	2-0
v NORWICH CITY	(H)	LOST	1-3
(did not qualify for Semi-Finals)			

YOUTH TEAM

SOUTH EAST COUNTIES LEAGUE DIVISION 1

	P	W	D	L	F	A	Pts.
HOME	15	7	5	3	28	12	19
AWAY	15	7	2	6	23	26	16
	30	14	7	9	51	38	35

Final Position: 4th

FA YOUTH CUP

Round 2		v IPSWICH TOWN	(A)	LOST	0-1
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SOUTH EAST COUNTIES LEAGUE CUP

Round 1		v NORWICH CITY	(A)	LOST	1-4
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SOUTHERN JUNIOR FLOODLIT CUP

Preliminary Round		v NORTHAMPTON TOWN	(A)	WON	2-0
Round 1		v GILLINGHAM	(H)	WON	3-0
Round 2		v SWINDON TOWN	(H)	WON	3-1
Round 3		v WEST HAM UNITED	(H)	WON	1-0
Semi-Final		v BRISTOL CITY	(H)	WON	3-0
Final	(1st Leg)	v CRYSTAL PALACE	(A)	LOST	1-2
Final	(2nd Leg)	v CRYSTAL PALACE	(H)	LOST	0-1
					(lost 1-3 on aggregate)