Arsenal Broadband Limited

Directors' report and financial statements

Registered number 4053669

31 May 2003

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 May 2003.

Principal activity

The company's principal activity is the running of the official Arsenal Football Club internet portal.

Business review

A summary of the results for the year and the financial position are set out in the financial statements on pages 4 to 11.

Proposed dividend

The directors do not recommend the payment of a dividend *(2002: £nil)*.

Directors and directors' interests

The directors who held office during the year were as follows:

T Betts	(appointed 29 November 2002)
J Burns	(resigned 29 November 2002)
J Cresswell	(as alternate director)
D Dein	
K Edelman	
M Graesser	

The directors had no interest in the share capital of the company nor rights to subscribe for shares in the company, at any time during the period.

Auditor

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

T Betts
Director

The London Television Centre
Upper Ground
London SE1 9LT

8 September 2003

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of Arsenal Broadband Limited

We have audited the financial statements on pages 4 to 11.

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 auditor's 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 are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit 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 31 May 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
PO Box 695
8 Salisbury Square
London EC4Y 8BB

8 September 2003

Profit and loss account

for the year to 31 May 2003

	Note	**2003 £000**	2002 £000
Turnover	*1*	**667**	211
Cost of sales		**(72)**	(17)
Gross profit		**595**	194
Administrative expenses			
- Ordinary		**(1,960)**	(2,252)
- Exceptional	*5*	**(8,072)**	-
		(10,032)	(2,252)
Loss on ordinary activities before taxation	*2*	**(9,437)**	(2,058)
Taxation	*6*	**30**	-
Retained loss for the financial year	*12*	**(9,407)**	(2,058)

All turnover and losses are derived from continuing operations.

There is no difference between the loss as stated in the profit and loss account and the historical cost loss.

There are no recognised gains or losses in the period other than those stated above.

Balance sheet
at 31 May 2003

	Note	2003		2002	
		£000	**£000**	£000	£000
Fixed assets					
Intangible assets	*7*		**9,859**		18,966
Current assets					
Debtors	*8*	**278**		56	
Cash at bank and in hand		**152**		29	
		430		85	
Creditors: amounts falling due within one year	*9*	**(1,162)**		(817)	
Net current liabilities			**(732)**		(732)
Total assets less current liabilities			**9,127**		18,234
Creditors: amounts falling due after more than one year	*10*		**(925)**		(625)
			8,202		17,609
Capital and reserves					
Called up share capital	*11*		**25,000**		25,000
Share premium account	*12*		**15,000**		15,000
Profit and loss account	*12*		**(31,798)**		(22,391)
Equity shareholders' funds	*13*		**8,202**		17,609

These financial statements were approved by the board of directors on 5 September 2003 and were signed on its behalf by:

K Edelman
Director

T Betts
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. The financial statements have been prepared on the going concern basis, which the directors believe to be appropriate for the following reasons. The company is dependent for its working capital on funds provided to it by Granada Media Group Limited, a 50% shareholder. Granada Media Group Limited provide funding as per an approved budget and in line with the terms of a funding agreement. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other related entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result form the basis of preparation being inappropriate.

Cash flow statement

Under Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a small company (based on the small companies' exemption in companies' legislation).

Intangible fixed assets and amortisation

Intangible fixed assets are stated at cost less amortisation (including amounts charged on impairment). Amortisation is charged over a period of 20 years. Impairment charges are included within operating profits.

Taxation

Taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date except as otherwise required by FRS 19.

Turnover

Turnover represents monies earned in the period gross of commissions payable and excluding value added tax from the operation of the Arsenal Football Club official website and related activities.

Sponsorship, advertising, Arsenal plus subscription and similar income are recognised evenly over the period of the campaign. E.commerce commission is recognised when service is provided. Merchandise commission is recognised on dispatch of the goods.

Notes *(continued)*

2 Loss on ordinary activities before taxation

	2003	2002
	£000	£000
The loss on ordinary activities before taxation is stated after charging:		
Auditor's remuneration:		
Audit	**10**	8
Other services - fees paid to KPMG Audit Plc	**2**	8
Amortisation of intangible fixed assets (including impairment)	**9,107**	1,034

3 Remuneration of directors

The directors of the company received no remuneration from the company during the year (2002: £nil)

4 Staff numbers and costs

The average number of persons employed by the company (including all directors except for alternate directors) during the year, analysed by category, was as follows:

	Number of employees	
	2003	2002
Directors	**4**	4
Administration	**1**	-
Editorial	**1**	-
	6	4

The aggregate payroll costs of these persons were as follows:

	2003	2002
	£000	£000
Wages and salaries	**51**	-
Social security costs	**5**	-
	56	-

During the current and prior year certain staff members of the company's shareholders worked on behalf of the company and their costs were recharged to the company.

Notes *(continued)*

5 Exceptional item

The £8,072,000 of exceptional administrative expenses charged in the year ending 31 May 2003 related to the impairment of intangible fixed assets (see note 7).

6 Taxation

	2003	2002
	£000	£000
Corporation tax	**-**	-
Surrender of losses for consortium relief	**30**	-
Current tax credit	**30**	-

In 2003 the effective tax rate on losses before taxation is lower (2002: lower) than the nominal rate of UK corporation tax (30%; 2002: 30%). The differences are explained below:

	2003	2002
	£000	£000
Current tax reconciliation (credit/(charge))		
Loss on ordinary activities before tax	**9,437**	2,058
Current tax at 30%	**2,831**	617
Effects of:		
Amortisation not deductable for tax purposes	**(311)**	(310)
Exceptional: impairment not deductible for tax purposes	**(2,421)**	-
Other items	**1**	1
Tax losses carried forward (at 30%)	**(100)**	(308)
Surrender of losses for consortium relief	**30**	-
	30	-

At 31 May 2003 the company had £1,512,000 of taxable losses available for relief against the profits of future years *(2002: £1,329,000)*. The company has not recognised a deferred tax asset in respect of these losses in compliance with FRS 19.

The company has surrendered £150,000 of taxable losses to Arsenal Football Club Plc for £30,000.

Notes *(continued)*

7 Intangible fixed assets

	Licences, trade marks and similar rights and assets £000
Cost	
At 1 June 2002 and 31 May 2003	40,000
Amortisation	
At 1 June 2002	21,034
Charged in year	1,035
Impairment	8,072
At 31 May 2003	30,141
Net book value	
At 31 May 2003	9,859
At 31 May 2002	18,966

The intangible asset relates to the cost of the licence for the perpetual media rights of Arsenal FC.

The Directors performed an impairment review of the intangible fixed assets as at 31 May 2003 which resulted in an impairment charge of £8,072,000 being made.

The impairment test was based on the five year business plan of the Company. The discount rate applied to the forecast future cash flows was 10%.

8 Debtors

	2003 £000	2002 £000
Trade debtors	-	1
Amount owed by Arsenal Football Club Plc	**278**	4
Other debtors	-	51
	278	56

Notes *(continued)*

9 Creditors: amounts falling due within one year

	2003 £000	2002 £000
Amounts owed to Granada Media Group Limited	**946**	754
Other creditors	**19**	-
Accruals and deferred income	**197**	63
	1,162	817

10 Creditors: amounts falling due after more than one year

	2003 £000	2002 £000
Amounts owed to Granada Media Group Limited	**925**	625

11 Called up share capital

	2003 £000	2002 £000
Authorised, allotted, called up and fully paid		
Equity: 20,000,001 Ordinary 'A' shares of £1 each	**20,000**	20,000
Equity: 20,000,000 Ordinary 'B' shares of £0.25 each	**5,000**	5,000
Non-equity 1 Ordinary 'C' share of £1	**-**	-
	25,000	25,000

The equity 'A' and 'B' shareholders have equal voting rights. Rights to shares in the profits of the website business, and rights on the distribution of the website related assets in the event of a winding up, are split such that the 'A' share holders receive 50.001%, and the 'B' shareholders the remainder.

'C' shareholders have no voting rights. They have the exclusive right to the profits of the company from the exploitation of the licensed media rights other than for the purposes of operating the internet portal, plus any related assets in the event of a winding up.

12 Reserves

	Profit and loss account £000	Share premium £000	Total £000
Balance at 1 June 2002	(22,391)	15,000	(7,391)
Loss for the financial year	(9,407)	-	(9,407)
Balance at 31 May 2003	(31,798)	15,000	(16,798)

Notes *(continued)*

13 Reconciliation of movements in shareholders' funds

	2003	2002
	£000	£000
Opening shareholders' funds	**17,609**	19,667
Loss for the financial year	**(9,407)**	(2,058)
Closing shareholders' funds	**8,202**	17,609

14 Related party transactions

Related party	**Balance at 31 May 2003 debtor/(creditor)** £00	**Transaction**	**Total of transactions in period income/(charged)** £000
Arsenal Football Club Plc	278	Provision of tickets and merchandising	(1)
Arsenal Football Club Plc	(as above)	Merchandising and advertising sales	141
Arsenal Football Club Plc	(as above)	Sale of taxation losses (see note 6)	30
Granada Media Group Ltd	(1,871)	Provision of office and employee services	(644)
Granada Media Group Ltd	(as above)	Commission on sponsorship and advertising sales on behalf of third parties	(64)

Related party	**Balance at 31 May 2002 debtor/(creditor)** £00	**Transaction**	**Total of transactions in period income/(charged)** £000
Arsenal Football Club Plc	4	Provision of office services	(18)
Arsenal Football Club Plc	(as above)	Merchandising and advertising sales	52
Granada Media Group Ltd	(1,379)	Provision of office and employee services	(621)
Granada Media Group Ltd	(as above)	Commission on sponsorship and advertising	(17)

Granada Media Group Ltd funded £300,000 to the company in the year as a long term loan (2002: £625,000).

Arsenal Football Club Plc and Granada Media Group Ltd each own a 50% equity stake in the company.

The directors believe that all of the transactions were performed on an arms length basis.