

Manchester City Football Club Plc

Directors' report and financial statements

31 May 1997

Registered number 40946



Manchester City Football Club plc

Directors' report and financial statements

<i>Contents</i>	<i>Page</i>
Directors and Advisers	2
Report of the Directors	3-5
Statement of Directors' Responsibilities	6
Report of the Auditors	7
Profit and Loss Account	8
Note of historic cost profits and losses	9
Balance Sheet	10
Notes to the Accounts	11-21

Manchester City Football Club plc

Directors and advisers

Directors

FH Lee	
CJ Barlow	(resigned 1.8.97)
GJ Doyle FBII	(deceased 19.10.96)
JG Dunkerley	(resigned 1.8.97)
J Greibach	(resigned 1.8.96)
DA Holt	(resigned 1.8.97)
B Jervis	(resigned 1.8.96)
AM Lewis ACA	(resigned 1.8.97)
WA Miles	(resigned 24.6.97)
ILG Niven FBII	
F Pye	(resigned 28.8.97)
B Turnbull	(resigned 1.8.97)
ML Turner	(appointed 1.8.97)

Secretary

JB Halford

Registered Office

Maine Road, Moss Side, Manchester M14 7WN

Bankers

Co-operative Bank plc, 1 Balloon Street, Manchester M60 4EP

Auditors

KPMG Audit Plc
Chartered Accountants, St James' Square, Manchester M2 6DS

Solicitors

Kuit Steinart Levy, 3 St Mary's Parsonage, Manchester M3 2RD

Manchester City Football Club plc

Report of the Directors 1997

1 Principal activity

The principal activity of the company is the operation of a professional football club.

2 Results and dividends

The loss for the year transferred to reserves amounted to £ 3,891,396 (1996: £3,168,073). No dividend is proposed in respect of the year.

3 Directors and Directors' interests

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

FH Lee *	
CJ Barlow*	(resigned 1.8.97)
GJ Doyle FBII	(deceased 19.10.96)
JG Dunkerley*	(resigned 1.8.97)
GJ Grant	(resigned 1.8.96)
J Greibach	(resigned 1.8.96)
DA Holt*	(resigned 1.8.97)
B Jervis	(resigned 1.8.96)
AM Lewis ACA*	(resigned 1.8.97)
WA Miles	(resigned 24.6.97)
ILG Niven FBII	
F Pye	(resigned 28.8.96)
B Turnbull	(resigned 1.8.97)
ML Turner*	(appointed 1.9.97)

*Also a director of the holding company.

None of the directors who held office at 31 May 1997 had any disclosable interest in the shares of the company.

The interests of the directors in the shares of the ultimate holding company are disclosed in the accounts of that company.

4 Fixed assets

The changes in fixed assets during the period are summarised in note 9 in the financial statements.

Manchester City Football Club plc

Report of the Directors 1997 (continued)

5 Supplier payment policy

The company policy is normally to pay suppliers according to agreed terms of business. These terms are agreed upon entering into binding contracts and the Company seeks to adhere to the payment terms providing the relevant goods and services have been supplied in accordance with the contracts.

6 Political and charitable contributions

The Company made no political contributions during the year. Donations to UK charities amounted to £2,343 (1996: £3,238).

7 Corporate Governance

The Directors have considered the Code of Best practice issued by the Cadbury Committee and the Board supports the highest standards in Corporate Governance. The Board believes that the Code provides a blueprint for boardroom control, compliance with which offers opportunities for enhancing management focus as well as for delivering the principles of openness, integrity and accountability on which the Code itself is based.

The Board of Directors meets monthly throughout the season to review appropriate strategy, operational and financial matters. The Chief Executive is the only remunerated member of the Board.

The Directors are committed to implementing the recommendation of the Code as the Company is further developed and will report on progress in future reports.

8 Employees

Employee involvement

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

Disabled employees

Disabled persons are given full and fair consideration for all types of vacancy. If an existing employee becomes disabled, such steps as are practical and reasonable are taken to retain him/her in employment. Where appropriate, assistance with rehabilitation and suitable training are given. Disabled persons have equal opportunities for training, career development and promotion, except insofar as such opportunities are constrained by the practical limitations of their disability.

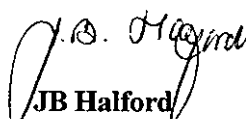
Manchester City Football Club plc

Report of the Directors 1997 (continued)

9 Auditors

A resolution is to be proposed at the AGM for the reappointment of KPMG Audit Plc as auditors of the Company.

By order of the board


JB Halford
Secretary

Manchester City Football Club plc

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 of the company 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 maintaining 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

KPMG Audit Plc

St James' Square
Manchester M2 6DS

Auditors' report to the members of Manchester City Football Club plc

We have audited the financial statements on pages 8 to 21.

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.

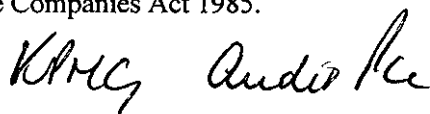
Basis of opinion

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 group's circumstances, consistently applied and adequately disclosed.

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

Opinion

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



KPMG Audit Plc
Chartered Accountants
Registered Auditors

17 October 1997

Manchester City Football Club plc

Profit and Loss Account

For the year ended 31 May 1997

	Note	Year ended 31 May 1997 £	Year ended 31 May 1996 £
Turnover	2	12,727,063	12,697,965
Cost of goods sold		(2,172,549)	(1,885,375)
Administrative expenses		(3,828,888)	(3,370,283)
Staff costs	5	(7,200,292)	(6,425,856)
Payments to other Clubs, Leagues and Associates		(463,647)	(253,790)
		(13,665,376)	(11,935,304)
Operating (loss)/profit		(938,313)	762,661
Interest payable	6	(1,199,082)	(1,342,522)
Loss before transfer fees		(2,137,395)	(579,861)
Transfer fees receivable less final signing on fees	7	3,750,687	5,865,042
Transfer fees payable		(5,504,678)	(8,453,254)
Net transfer fees payable		(1,753,991)	(2,588,212)
Loss on ordinary activities before and after taxation and for the financial year		(3,891,386)	(3,168,073)

The results for the two years are from continuing operations

There are no recognised gains and losses other than the result for the year

Manchester City Football Club plc

Note of historic cost profits and losses

For the year ended 31 May 1997

	1997 £	1996 £
Reported loss on ordinary activities before taxation	(3,891,386)	(3,168,073)
Difference between historic cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	203,986	203,986
	<u>(3,687,400)</u>	<u>(2,964,087)</u>

Manchester City Football Club plc

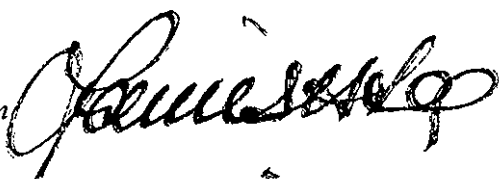
Balance Sheet

at 31 May 1997

	Note	1997 £	1996 £
Fixed assets			
Tangible assets	9	30,669,158	31,105,679
Current assets			
Stocks	10	101,272	-
Debtors	11	1,453,027	1,384,059
Investments	12	-	1,000
Cash at bank and in hand		1,460,185	781,768
		<u>3,014,484</u>	<u>2,166,827</u>
Creditors			
Amounts falling due within one year	13	(25,464,904)	(20,214,561)
Net current liabilities		<u>(22,450,420)</u>	<u>(18,047,734)</u>
Total assets less current liabilities		<u>8,218,738</u>	<u>13,057,945</u>
Creditors			
Amounts falling due after more than one year	14	(5,353,975)	(6,831,906)
Accruals and deferred income	15	(7,092,896)	(6,562,786)
		<u>(4,228,133)</u>	<u>(336,747)</u>
Capital and reserves			
Called up share capital	16	962,120	962,120
Share premium account	17	59,303	59,303
Calls on shares forfeited		23	23
Revaluation reserve	17	9,927,043	10,131,029
Profit and loss account	17	(15,176,622)	(11,489,222)
Equity shareholders' funds		<u>(4,228,133)</u>	<u>(336,747)</u>

These Financial Statements were approved by the board of directors on 16 October 1997 and were signed on its behalf by:

FH LEE
Chairman



The notes on pages 11 to 21 form part of these financial statements.

KPMG Audit Plc

Manchester City Football Club plc

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 accounting

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention as modified by the revaluation of certain tangible fixed assets

Turnover

Turnover represents amounts receivable by the company excluding Value Added Tax, in respect of gate receipts, commercial activities relating to the Club and donations. Advanced season ticket sales are included within deferred income and released to profit in the relevant season.

Transfer fees

Transfer fees receivable are stated in the profit and loss account net of final signing on fees. Fees payable and receivable from other football clubs on the transfer of players' registrations, together with associated costs, are dealt with through the profit and loss account in the accounting period in which the registration is transferred. Contingent elements of transfer fees payable and receivable are recognised when the appropriate material conditions are met.

Signing on fees

Signing on fees are charged to staff costs over the life of the players' contract. The balance of signing on fees payable in the event of a transfer before the end of a player's contract are deducted from the related transfer fees receivable.

Depreciation

Depreciation has been charged on tangible fixed assets as follows:

Freehold buildings	-	2% straight line
Fixtures and fittings	-	10% straight line
Computer equipment	-	25% straight line
Motor vehicles	-	25% reducing balance

These rates are designed to write off the assets to their residual values over their estimated useful lives.

Stock.

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

Manchester City Football Club plc

Notes (continued)

1 Accounting policies (continued)

Leases

Where the Company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Capital grants

Grants receivable from the Football Trust and similar bodies in respect of capital expenditure are treated as deferred income and released to the profit and loss account over a future period. This period will equal the economic life of the assets to which the grants relate in order to match the income to the depreciation charged on those assets. Deferred grant income in the balance sheet represents total grants received less amounts credited to the profit and loss account.

Cash flow

The company is a fully owned subsidiary of a company incorporated in the United Kingdom and therefore, in accordance with the provisions of Financial Reporting Standard 1 Revised ("FRS1"), has not prepared a cash flow statement.

2 Turnover

	Year ended 31 May 1997 £	Year ended 31 May 1996 £
Gate receipts	5,315,568	5,460,744
Television	1,972,320	1,653,777
Other commercial activities	5,287,907	5,414,886
Donations from development association	151,268	168,159
	<u>12,727,063</u>	<u>12,697,965</u>

Manchester City Football Club plc

Notes (continued)

3 Loss on ordinary activities before taxation

	Year ended 31 May 1997 £	Year ended 31 May 1996 £
Loss on ordinary activities before taxation is stated after charging:		
Remuneration of auditor and its associates:		
Audit fees	24,000	20,500
Other services	67,180	53,755
Depreciation and other amounts written off tangible fixed assets:		
Owned	690,162	668,489
Leased	345,268	222,346
Hire of other assets	108,559	68,242

4 Remuneration of directors

	Year ended 31 May 1997 £	Year ended 31 May 1996 £
Directors' emoluments	98,321	85,716
Compensation for loss of office	33,297	-

The emoluments of the highest paid and former Managing Director were £75,110 (1996: £85,716) and those of the current Chief Executive were £23,211.

Manchester City Football Club plc

Notes (continued)

5 Staff numbers and costs

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

	Number of employees	
	Year ended 31 May 1997	Year ended 31 May 1996
Players and football administration staff	84	84
Administration staff	44	44
Commercial staff	38	20
	<u>166</u>	<u>148</u>

The aggregate payroll costs of these persons were as follows:

	Year ended 31 May 1997 £	Year ended 31 May 1996 £
Wages and salaries	6,357,718	5,589,665
Social security costs	593,037	540,471
Other pension costs	249,537	295,720
	<u>7,200,292</u>	<u>6,425,856</u>

6 Interest payable

	Year ended 31 May 1997 £	Year ended 31 May 1996 £
Bank loans and overdrafts	516,322	626,497
Convertible unsecured loan stock	229,119	337,416
Other interest	41,920	372,920
Finance lease interest	411,721	5,689
	<u>1,199,082</u>	<u>1,342,522</u>

In addition to the above, interest of £nil (1996: £154,690) has been capitalised in the year.

Manchester City Football Club plc

Notes (continued)

7 Final signing on fees

Included within transfer fees receivable are payments of £55,000 (1996: £952,500) made in the year in respect of the settlement of signing on fees on transfer of the relevant player to another club. Where transfers are at the request of the player no such payments are required.

8 Tax on profit on ordinary activities

	Year ended 31 May 1997 £	Year ended 31 May 1996 £
Corporation Tax on results of the period	Nil	Nil

The company has corporation tax losses available for carry forward of approximately £19 million.

9 Fixed assets

Tangible assets	Freehold Land and Buildings £	Fixtures, Fittings Equipment £	Motor Vehicles £	Total £
Cost/valuation				
As at 1 June 1996	28,739,079	3,747,817	66,100	32,552,996
Additions	151,909	420,661	38,339	610,909
Disposals	-	-	(28,500)	(28,500)
As at 31 May 1997	28,890,988	4,168,478	75,939	33,135,405
Depreciation				
As at 1 June 1996	588,323	843,187	15,807	1,447,317
Charge for the year	592,304	428,869	14,257	1,035,430
On disposals	-	-	(16,500)	(16,500)
As at 31 May 1997	1,180,627	1,272,056	13,564	2,466,247
Net book value				
As at 31 May 1997	27,710,361	2,896,422	62,375	30,669,158
As at 1 June 1996	28,150,756	2,904,630	50,293	31,105,679

Manchester City Football Club plc

Notes (continued)

9 Fixed assets (continued)

Tangible fixed assets are shown at their original cost to the company with the exception of freehold land and buildings. The land and buildings are shown at a 1995 valuation. The directors obtained the valuation of the land and buildings from Dunlop Heywood, Consultant Surveyors, as at 31 May 1995. The valuation was prepared on a depreciated replacement cost basis and was made in accordance with the Royal Institute of Chartered Surveyors Asset Valuation Practice and Guidance Notes. The land and buildings are all shown at valuation. Details of original cost are not available.

	1997 £	1996 £
Capital commitments		
Contracted for but not provided	<u>200,000</u>	<u>-</u>

The net book value of fixed assets at 31 May 1997 includes £4,593,618 (1996: £4,384,365) in respect of assets on finance lease or hire purchase. Depreciation for the year on these assets was £345,268 (1996: £222,346).

The cost of tangible assets includes £89,070 (1996: £89,070) of capitalised interest relating to the construction of the Umbro Stand and £350,780 (1996: £350,780) relating to the construction of the Kippax Stand.

10 Stocks

	1997 £	1996 £
Finished goods and goods for resale	<u>101,272</u>	<u>-</u>

11 Debtors

	1997 £	1996 £
Amounts falling due within one year		
Trade debtors	1,154,923	975,479
Other debtors	3,598	3,985
Prepayments and accrued income	294,506	404,595
	<u>1,453,027</u>	<u>1,384,059</u>

Manchester City Football Club plc

Notes (continued)

12 Investments

	1997	1996
	£	£
1,100 25p shares in Lloyds TSB Group Plc	-	1,000

The above investment was sold during the year for £5,110 net of commission.

The market value of the above investment as at 31 May 1996 was £3,443.

13 Creditors - amounts falling due within one year

	1997	1996
	£	£
Transfer fees	2,308,952	3,284,086
Mortgage	4,000	4,000
Bank overdraft - secured	-	5,677,853
Bank loan - secured	297,193	296,000
Trade creditors	988,275	1,112,768
Finance leases	641,193	542,141
Taxation and social security costs	2,359,680	1,853,273
Other loans	619,896	720,747
Loans from Directors	-	49,500
Amounts owed to holding company	17,695,333	5,991,777
Accruals	550,382	682,416
	<u>25,464,904</u>	<u>20,214,561</u>

The bank borrowings and mortgages are secured by charges on the land and premises at Maine Road and at Platt Lane. The bank loan is due to be repaid by 1999.

Manchester City Football Club plc

Notes (continued)

14 Creditors - amounts falling due after more than one year

	1997 £	1996 £
Transfer fees	-	578,828
Bank loans and overdrafts secured	297,194	575,285
Other loans	1,971,033	2,121,283
Mortgage	29,954	37,243
Finance leases	3,055,794	3,519,267
	<u>5,353,975</u>	<u>6,831,906</u>

The current portion of the mortgage amounting to £4,000 is shown in current liabilities (1996: £4,000).

Other loans

Other loans are unsecured and include £1,300,000 of loans which are repayable on the earlier of 21 January 2000 or, if earlier, on a takeover or an admission of the Company's share capital to the London Stock Exchange or the Alternative Investment Market. This loan is convertible upon any of these events occurring into ordinary shares of the Company and attracts interest at the rate of 1% above Lloyds Bank bank rate. The balance of other loans are interest free.

<i>Mortgages</i>	1997 £	1996 £
The Mortgage secured on residential property bears interest at Bank mortgage rate on	<u>33,954</u>	<u>41,243</u>
Amounts repayable within five years	20,000	20,000
Amounts repayable after five years	13,954	21,243
	<u>33,954</u>	<u>41,243</u>

Manchester City Football Club plc

Notes (continued)

14 Creditors - amounts falling due after more than one year (continued)

Finance leases

The maturity of obligations under finance leases and hire purchase contracts, net of finance charges is as follows:

	1997 £	1996 £
Within one year	641,193	542,141
In the second to fifth years	2,863,274	2,613,839
In more than 5 years	192,520	905,428
	<u>3,696,987</u>	<u>4,061,408</u>

Finance lease instalments include £3,189,149 which is secured by a floating charge over the assets of the company.

15 Accruals and deferred income

	1997 £	1996 £
Amounts falling due within one year		
Deferred income	3,086,668	2,551,469
Deferred credit for capital grants	88,463	78,838
	<u>3,175,131</u>	<u>2,630,307</u>
Amounts falling due after more than one year		
Deferred income	185,417	207,395
Deferred credit for capital grants	3,732,348	3,725,084
	<u>3,917,765</u>	<u>3,932,479</u>
	<u>7,092,896</u>	<u>6,562,786</u>

Deferred credit for capital grants

The movements in deferred credit for capital grants during the year were as follows:

	£
At 1 June 1996	3,803,922
Grants received to 31 May 1997	96,246
Grants released to 31 May 1997	(79,357)
At 31 May 1997	<u>3,820,811</u>

Manchester City Football Club plc

Notes (continued)

16 Called up share capital

The authorised and issued share capital at the beginning and the end of the year is as follows:

	1997		1996	
	Number of shares	£	Number of shares	£
Authorised				
Ordinary shares of £1 each	1,600,000	1,600,000	1,600,000	1,600,000
	<u>1,600,000</u>	<u>1,600,000</u>	<u>1,600,000</u>	<u>1,600,000</u>
Issued				
Ordinary shares of £1 each	961,270	961,270	961,270	961,270
Ordinary shares of £1 each - 25p paid	3,399	850	3,399	850
	<u>964,669</u>	<u>962,120</u>	<u>964,669</u>	<u>962,120</u>

17 Reserves

	Share premium £	Revaluation reserve £	Profit & loss account £
At 1 June 1996	59,303	10,131,029	(11,489,222)
Transfer	-	(203,986)	203,986
Retained loss for the year	-	-	(3,891,386)
At 31 May 1997	<u>59,303</u>	<u>9,927,043</u>	<u>(15,176,622)</u>

Manchester City Football Club plc

Notes (continued)

18 Contingent liabilities

- 1 Transfer fees of £925,000, contingent upon future appearances of certain players are accounted for when the conditions for payment have been satisfied.
- 2 Signing on fees and loyalty bonuses of £1,421,963 (1996: £2,087,667), which will become due to certain players if they are still in the service of the Club on specific future dates are accounted for in the year in which they fall due for payment.
- 3 Contingent on the outcome of the ongoing investigations into the tax affairs of football clubs, Manchester City Football Club may or may not face additional tax liabilities arising in respect of earlier periods. The directors consider that given the uncertainties involved they are unable to make a reasonable assessment as to any potential liability which may arise.
- 4 The proposed terms of the recently negotiated Premier League B Sky B contract includes the advanced receipts of monies upon fulfilment of the terms of the contract in the future. There are uncertainties regarding the potential challenges of this contract by the Office of Fair Trading. The maximum amount that could be repayable by the company is £516,000 (1996: £nil).

19 Reconciliation of movement in shareholders funds

	1997 £	1996 £
Loss for the financial year	(3,891,386)	(3,168,073)
Net reduction to shareholders funds	<u>(3,891,386)</u>	<u>(3,168,073)</u>
Opening shareholders funds	<u>(336,747)</u>	<u>2,831,326</u>
Total closing shareholders funds	<u>(4,228,133)</u>	<u>(336,747)</u>

20 Commitments

The company has no operating lease commitments.

21 Ultimate holding company

The immediate and ultimate holding company is Manchester City PLC, a company registered in England and Wales.