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**THE SUNDERLAND ASSOCIATION FOOTBALL CLUB
LIMITED**

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 MAY 1996



THE SUNDERLAND ASSOCIATION FOOTBALL CLUB LIMITED

DIRECTORS' REPORT

The directors present their report and the audited accounts of the company for the year ended 31 May 1996.

PRINCIPAL ACTIVITY, RESULTS AND REVIEW OF THE BUSINESS

The principal activity of the company is that of a professional Football League Club.

The company made a loss for the financial year after taxation of £2,368,000 (1995 - £698,000).

Both turnover and gross profit have increased considerably reflecting the company's growth and success in the year under review.

DIRECTORS' INTERESTS

The interests of the directors (including their family interests) in the share capital of the company at the beginning and the end of the year are shown below.

	<u>£1 ordinary shares</u>	
	31 May 1996	31 May 1995
J R Featherstone (resigned 1 July 1996)	1,500	1,500
G S Wood (resigned 1 July 1996)	324	324
J M Fickling	2,188	2,188
R S Murray	7,501	7,501
J G Wood (resigned 1 July 1996)	1,182	1,182

Mr G McDonnell and Mr D C Stonehouse were appointed directors of the company on 4 July 1996 and 5 August 1996 respectively.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year, and of the profit or loss for the financial year.

The directors confirm that appropriate accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made, in the preparation of the financial statements for the year ended 31 May 1996. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors 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.

TANGIBLE FIXED ASSETS

The movements in tangible fixed assets during the year are set out in Note 7 to the accounts.

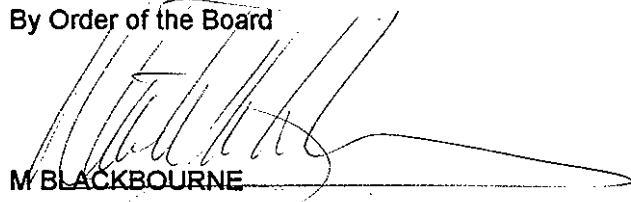
THE SUNDERLAND ASSOCIATION FOOTBALL CLUB LIMITED

DIRECTORS' REPORT (CONTINUED)

AUDITORS

The auditors, Price Waterhouse, are willing to continue in office and resolutions as to their re-appointment and remuneration will be proposed at the Annual General Meeting.

By Order of the Board

A handwritten signature in dark ink, appearing to be 'M. Blackburne', written over a horizontal line.

M BLACKBOURNE

Secretary

22 November 1996

Price Waterhouse



**AUDITORS' REPORT TO THE MEMBERS OF
THE SUNDERLAND ASSOCIATION FOOTBALL CLUB LIMITED**

We have audited the financial statements on pages 4 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 1 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 affairs of the company as at 31 May 1996 and of its loss for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors

22 November 1996

THE SUNDERLAND ASSOCIATION FOOTBALL CLUB LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MAY 1996

	Notes	1996		1995	
		£'000	£'000	£'000	£'000
				<u>As restated</u>	
TURNOVER	1(g)				
Match receipts		3,712		2,588	
Other receipts		<u>3,454</u>		<u>2,919</u>	
			7,166		5,507
COST OF SALES					
Match expenses		(3,762)		(2,832)	
Ground and other direct expenses		<u>(2,302)</u>		<u>(2,026)</u>	
			(6,064)		(4,858)
GROSS PROFIT			1,102		649
Administration expenses			(1,552)		(1,095)
Accounting for players' transfer fees	1(c), 3		<u>(1,812)</u>		<u>(147)</u>
OPERATING LOSS			(2,262)		(593)
Bank interest payable			(113)		(108)
Short term deposit interest receivable			<u>7</u>		<u>3</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	2		(2,368)		(698)
TAXATION ON LOSS ON ORDINARY ACTIVITIES	6		<u>-</u>		<u>-</u>
LOSS FOR THE FINANCIAL YEAR	14		<u>(2,368)</u>		<u>(698)</u>

The notes on pages 8 to 16 form part of these accounts.

THE SUNDERLAND ASSOCIATION FOOTBALL CLUB LIMITED

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
YEAR ENDED 31 MAY 1996**

	1996 £'000	1995 £'000 As restated
Loss for the financial year	<u>(2,368)</u>	<u>(698)</u>
Total recognised gains and losses relating to the year	<u>(2,368)</u>	<u>(698)</u>
Prior year adjustments (as explained in note 20)	<u>(3,529)</u>	
Total gains and losses recognised since last annual report	<u>(5,897)</u>	

The notes on pages 8 to 16 form part of these accounts.

THE SUNDERLAND ASSOCIATION FOOTBALL CLUB LIMITED

BALANCE SHEET AS AT 31 MAY 1996

	Notes	<u>1996</u>	<u>1995</u>
		£'000	£'000
			<u>As restated</u>
FIXED ASSETS			
Tangible assets	7	1,613	1,523
Investments	8	-	-
Intangible assets	9	<u>1,829</u>	<u>2,802</u>
		3,442	4,325
CURRENT ASSETS			
Stocks	10	191	116
Debtors	11	1,478	2,011
Cash at bank and in hand		<u>4</u>	<u>4</u>
		1,673	2,131
CREDITORS			
Amounts falling due within one year	12	<u>(5,181)</u>	<u>(4,154)</u>
NET CURRENT LIABILITIES		<u>(3,508)</u>	<u>(2,023)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(66)</u>	<u>2,302</u>
CAPITAL AND RESERVES			
Called up share capital	13	14	14
Share premium account	14	2,242	2,242
Revaluation reserve	14	709	709
Profit and loss account	14	<u>(3,031)</u>	<u>(663)</u>
		<u>(66)</u>	<u>2,302</u>

APPROVED BY THE BOARD ON
22 November 1996



D C STONEHOUSE
Director

The notes on pages 8 to 16 form part of these accounts.

THE SUNDERLAND ASSOCIATION FOOTBALL CLUB LIMITED

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MAY 1996**

	Notes	<u>1996</u>	<u>1995</u>
		£'000	£'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	15	2,308	(1,369)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest and finance charges paid		(113)	(108)
Interest received		<u>7</u>	<u>3</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(106)	(105)
INVESTING ACTIVITIES			
Purchase of tangible fixed assets		(164)	(55)
Purchase of intangible fixed assets		(1,282)	(1,570)
Sale of intangible fixed assets		<u>443</u>	<u>1,661</u>
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES		(1,003)	<u>36</u>
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		1,199	(1,438)
NET CASH INFLOW FROM FINANCING		<u>-</u>	<u>345</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	17	<u>1,199</u>	<u>(1,093)</u>

The notes on pages 8 to 16 form part of these accounts.

THE SUNDERLAND ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE ACCOUNTS - 31 MAY 1996

1 ACCOUNTING POLICIES

(a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the valuation of certain fixed assets and in accordance with applicable accounting standards.

(b) Depreciation

Depreciation has been calculated to write down the cost or valuation of tangible fixed assets over their expected useful lives at the following rates:

Freehold property	Nil
Furniture, fixtures and equipment	3-10 years in equal annual instalments
Tractors	8 years in equal annual instalments
Motor vehicles	4 years in equal annual instalments

It is the company's policy to maintain its properties in good repair, the costs of maintenance being charged to the profit and loss account. Consequently, the directors consider the lives of the freehold properties to be so long and residual values (based on prices prevailing at the time of acquisition or subsequent revaluation) so high that there is no significant annual depreciation. Any permanent diminution in the value of such properties is charged to the profit and loss account as appropriate.

Costs of ongoing capital projects are held as capital works in progress in the balance sheet and are transferred to the appropriate fixed asset categories upon completion.

(c) Intangible assets

The cost associated with the acquisition of players' registrations are capitalised as intangible fixed assets. These costs are amortised, in equal annual instalments, fully over the contract period. No amortisation charge is made in the year of acquisition. Permanent diminutions in values below the amortised value, such as through injury or loss of form, are provided for when management become aware that the diminution is permanent.

(d) Stocks

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

(e) Expenditure under the Safety of Sports Grounds Act 1975

Expenditure under the Safety of Sports Grounds Act 1975 and as recommended by Lord Justice Taylor's final report on the Hillsborough Stadium disaster, is charged to the profit and loss account. Grants from the Football Trust (1990) Limited, based on this expenditure are also dealt with in the profit and loss account.

(f) Lease rentals

Assets acquired under finance leases are capitalised and depreciated over their estimated useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease. Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

THE SUNDERLAND ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE ACCOUNTS - 31 MAY 1996 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

(g) Turnover

Turnover comprises net gate and ticket receipts, sports contracts and sponsorship revenue, ground catering and shop income.

(h) Signing on fees

Contractual amounts of fees payable to players are recognised as prepayments and amortised over the contract period with no charge on the first year.

(i) Pensions

Pension costs relate to defined benefit pension schemes and are charged to the profit and loss account in the period for which the contributions are payable.

(j) Deferred taxation

Provision is made, using the liability method, for all tax deferred by timing differences to the extent that there is reasonable probability that the tax deferred will crystallise in the foreseeable future.

2 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is stated after charging/(crediting):

	1996 £'000	1995 £'000
Staff costs:		
Wages and salaries	4,112	2,991
Social security costs	318	244
Other pension costs	21	19
Auditors' remuneration	12	10
Non audit fees paid to the company's auditors	6	12
Depreciation	74	80
Operating lease rentals - hire of plant and machinery	14	14
Rent receivable	<u>(20)</u>	<u>(26)</u>

3 ACCOUNTING FOR PLAYERS' TRANSFER FEES

	1996 £'000	1995 £'000
Amortisation of transfer fees	(1,196)	(1,333)
Provision for permanent diminution in the value of players	(1,059)	(250)
Profit on disposal of players' contracts	<u>443</u>	<u>1,436</u>
	<u>(1,812)</u>	<u>(147)</u>

THE SUNDERLAND ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE ACCOUNTS - 31 MAY 1996 (CONTINUED)

4 EMPLOYEES

The average number of persons employed by the company during the year were as follows:

	1996 £'000	1995 £'000
Administration	85	80
Football	52	47
Match day staff	<u>461</u>	<u>446</u>
	<u>598</u>	<u>573</u>

5 DIRECTORS' EMOLUMENTS

Directors emoluments including pension contributions totalled £5,500 (1995 - £84,000). The chairman did not receive any emoluments during the year. The emoluments (excluding pension contributions) of the highest paid director were £5,500 (1995 - £54,000).

The number of directors in each category of remuneration (excluding pension contributions) was as follows:

	1996 No	1995 No
0 - £5,000	4	6
£5,001 - £10,000	1	-
£50,001 - £55,000	-	1

6 TAXATION

No liability to corporation tax arises on the results of the year and losses of approximately £5.8 million are available to be carried forward against future trading profits.

THE SUNDERLAND ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE ACCOUNTS - 31 MAY 1996 (CONTINUED)

7 TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Fixtures, fittings, equipment and vehicles £'000	Capital works in progress £'000	Total £'000
Cost or valuation				
Balance at 1 June 1995	1,356	768	5	2,129
Additions	-	21	143	164
Disposals	-	-	-	-
Balance at 31 May 1996	<u>1,356</u>	<u>789</u>	<u>148</u>	<u>2,293</u>
Comprising:				
Cost	105	789	148	1,042
Directors' valuation 1994	<u>1,251</u>	-	-	<u>1,251</u>
	<u>1,356</u>	<u>789</u>	<u>148</u>	<u>2,293</u>
Accumulated depreciation				
Balance at 1 June 1995	-	606	-	606
Amount provided	-	74	-	74
Disposals	-	-	-	-
Balance at 31 May 1996	-	<u>680</u>	-	<u>680</u>
Net book amount				
At 31 May 1996	<u>1,356</u>	<u>109</u>	<u>148</u>	<u>1,613</u>
At 31 May 1995	<u>1,356</u>	<u>162</u>	<u>5</u>	<u>1,523</u>

Certain freehold properties of the company are stated at a directors valuation carried out as at 31 May 1994.

On an historical cost basis, freehold land and buildings would have been included at a cost of £653,930 and accumulated depreciation of £7,502.

THE SUNDERLAND ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE ACCOUNTS - 31 MAY 1996 (CONTINUED)

8 FIXED ASSET INVESTMENTS

	Share in subsidiary £	Other investment £	Total £
Cost and net book amounts at 31 May 1996 and 31 May 1995	<u>4</u>	<u>1</u>	<u>5</u>

The company has a wholly-owned dormant subsidiary, Roker Park Estates Limited, which is registered in England. No group accounts have been prepared because in the opinion of the directors the investment is not material.

9 INTANGIBLE FIXED ASSETS

Transfer fees paid for players' contracts.

	£'000
Cost	
At 1 June 1995	5,287
Additions	1,282
Disposals	(1,831)
At 31 May 1996	<u>4,738</u>
Accumulated amortisation	
At 1 June 1995	2,485
Amortised in the year	1,196
Permanent diminution in value	1,059
Released on disposal	(1,831)
At 31 May 1996	<u>2,909</u>
Net book amount	
At 31 May 1996	<u>1,829</u>
At 31 May 1995	<u>2,802</u>

THE SUNDERLAND ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE ACCOUNTS - 31 MAY 1996 (CONTINUED)

10 STOCKS

Stocks at 31 May 1996 and 31 May 1995 comprise goods for resale.

11 DEBTORS

	1996 £'000	1995 £'000
Trade debtors	418	870
Other debtors	60	272
Prepayments and accrued income	<u>1,000</u>	<u>869</u>
	<u>1,478</u>	<u>2,011</u>

12 CREDITORS

Amounts falling due within one year:

	1996 £'000	1995 £'000
Bank overdraft	896	2,095
Directors loans	628	228
Trade creditors	856	884
Other creditors	7	8
Taxation and social security	551	140
Accruals and deferred income	1,421	799
Payments in advance	<u>822</u>	<u>-</u>
	<u>5,181</u>	<u>4,154</u>

The bank overdraft is secured by a charge over certain assets of the company.

13 CALLED UP SHARE CAPITAL

	1996 £'000	1995 £'000
Authorised		
Ordinary share of £1 each	<u>30,000</u>	<u>15,000</u>
Allotted, issued and fully paid		
Ordinary shares of £1 each	<u>14,000</u>	<u>14,000</u>

THE SUNDERLAND ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE ACCOUNTS - 31 MAY 1996 (CONTINUED)

14 RESERVES

	Players valuation reserve £'000	Revaluation reserve £'000	Share premium account £'000	Profit and loss account £'000
As previously reported	2,822	709	2,242	44
Prior year adjustments (note 20)	<u>(2,822)</u>	<u>-</u>	<u>-</u>	<u>(707)</u>
Balances at 1 June 1995 (restated)	-	709	2,242	(663)
Loss for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,368)</u>
At 31 May 1996	<u>-</u>	<u>709</u>	<u>2,242</u>	<u>(3,031)</u>

15 LEASE COMMITMENTS

Operating leases on plant and machinery

Annual commitments which expire in:

	1996 £'000	1995 £'000
Under one year	-	5
Two to five years inclusive	<u>6</u>	<u>7</u>

16 PENSION COMMITMENTS

Certain of the employees of the company participate in the Football League Pension and Life Assurance Scheme and the Football League Players' Benefit Scheme. Both schemes are defined benefits schemes co-sponsored by the FA Premier League and the Football League. The company makes contributions to the schemes in accordance with the recommendations of the actuaries to the schemes.

As the Club is one of a number of participating employers in the schemes, it is not possible to allocate that part of any actuarial rights or deficit owing to the Club's employees. Consequently, contributions are expensed to profit and loss account as they become payable. The amounts charged to profit and loss account were £21,000 (1995 - £19,000).

THE SUNDERLAND ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE ACCOUNTS - 31 MAY 1996 (CONTINUED)

17 RECONCILIATION OF OPERATING LOSS TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	1996 £'000	1995 £'000
Operating loss	(2,262)	(593)
Accounting for players' transfer fees	1,812	147
Depreciation charge	74	80
(Increase)/decrease in stocks	(75)	80
Decrease/(increase) in debtors	567	(789)
Increase/(decrease) in creditors	<u>2,192</u>	<u>(294)</u>
Net cash inflow/(outflow) from operating activities	<u>2,308</u>	<u>(1,369)</u>

18 ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR

	1996 £'000	1995 £'000
Balance at 1 June 1995	(2,091)	(998)
Net cash inflow/(outflow)	<u>1,199</u>	<u>(1,093)</u>
Balance at 31 May 1996	<u>(892)</u>	<u>(2,091)</u>

19 INCREASE IN CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET

	1996 £'000	Change £'000	1995 £'000
Cash	4	-	4
Bank overdraft	<u>(896)</u>	<u>1,199</u>	<u>(2,095)</u>
	<u>(892)</u>	<u>1,199</u>	<u>(2,091)</u>

20 PRIOR YEAR ADJUSTMENTS

The accounting policies for intangible fixed assets and signing on fees have been changed during the year. Intangible fixed assets now comprise players' transfer fees and are amortised over the period of the players' contracts with no charge in the year of acquisition. Signing on fees are charged to the profit and loss account over the same period. The effect of these changes in accounting policy is to reduce net assets by £3,489,000. In addition a permanent diminution of £40,000 in the value of fixture and fittings at Roker Park has been recognised by way of a prior year adjustment to accumulated depreciation.

21 HISTORICAL COST PROFITS AND LOSSES

There is no difference between the reported losses for the year and the loss as calculated on an historical cost basis.

THE SUNDERLAND ASSOCIATION FOOTBALL CLUB LIMITED

NOTES TO THE ACCOUNTS - 31 MAY 1996 (CONTINUED)

22 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£'000
As previously reported	5,831
Prior year adjustments (Note 18)	<u>(3,529)</u>
Restated balance at 31 May 1995	2,302
Loss for year	<u>(2,368)</u>
At 31 May 1996	<u><u>(66)</u></u>

23 CAPITAL COMMITMENTS

At 31 May 1996 the company had contracted capital commitments of £15 million relating to the construction of a new stadium.