

STOKE CITY FOOTBALL CLUB LIMITED

Report and Financial Statements

31 May 2004



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STOKE CITY FOOTBALL CLUB LIMITED

NOTICE OF MEETING

NOTICE is hereby given that the Annual General Meeting of the above named Company will be held at 11.00 am on Saturday 30 April 2005 at Britannia Stadium, Stanley Matthews Way, Stoke on Trent, ST4 4EG for the purposes of:-

- a. To receive and adopt the Company's accounts for the year to 31 May 2004 together with the Reports of the Directors and Auditors thereon.
- b. To re-appoint Deloitte & Touche LLP as auditors of the Company and to authorise the directors to fix the auditors remuneration.
- c. To consider and, if thought fit, pass the following resolution as an Ordinary Resolution of the Company:
 1. That the authorised share capital of the company be increased from £3,523,398.00 to £7,000,000.00 by the creation of 3,476,602 ordinary shares of £1 each ranking pari passu in all respects to the existing £1 ordinary shares in the capital of the Company.
- d. To consider and, if thought fit, pass the following resolution as a Special Resolution of the Company:
 1. That pursuant to Section 95(2) of the Companies Act the Directors of the Company be and are hereby authorised to allot and issue 3,476,602 ordinary shares of £1 each in the capital of the Company.

As if the pre-emption provisions of Section 89(1) of the Companies Act 1985 do not apply.

BY ORDER OF THE BOARD


.....

(Secretary)

Registered Office:

Date: 31 March 2005

N.B.: A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him; the proxy need not also be a member of the Company.

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G T Gislason
S G Thorisson
A Sigurvinsson
P Coates
K A Humphreys
P Rawlins

CHIEF EXECUTIVE

A Scholes

SECRETARY

I Bailey

MANAGER

A R Pulis

REGISTERED OFFICE

Britannia Stadium
Stanley Matthews Way
Stoke-on-Trent
ST4 4EG

BANKERS

Co-operative Bank PLC
1 Balloon Street
Manchester
M60 4EP

SOLICITORS

Knight & Sons
The Brampton
Newcastle-under-Lyme
Staffordshire
ST5 0QW

AUDITORS

Deloitte & Touche LLP
Chartered Accountants and Registered Auditor
Manchester

CHAIRMAN'S STATEMENT

Introduction

The 2003/2004 season was a successful consolidation season for Stoke City Football Club Limited both on and off the football pitch. The team improved, the company began to come to terms with the financial realities of the Football League and the supporters gave the club a huge vote of confidence with the record uptake of season tickets for the 2004/05 season.

Financial results

Last season was a very good season financially for the club with the club almost breaking even on operations before interest expenses and making a small profit when we include net profits on player trading. Looking at the full picture with financing costs, the club suffered a loss of approximately £600,000.

We have had some positive news about the financial results of the club before and in particular in the 2001/2002 season when we sold Peter Thorne and Graham Kavanagh to Cardiff but we have never been this close to breaking even on operations in the five years since I became Chairman. If we continue along this path we will eventually reach the ultimate goal of making the club financially self sufficient and not in need of constant cash infusion from its owners.

The main reason for these positive results is our success in lowering the cost of employing players at the club. The wage bill, including loan players, was reduced by over £600,000 from the previous year and it has not been lower in absolute terms since the 2000/2001 season. Tony Pulis and John Rudge deserve credit for their part in achieving these results but the main difference from the previous season is that we did not need to take on as many loan players and players on short term contracts to help us out in the second half of the season as we had had to do in the 2002/2003 season.

Gate receipts in the League were virtually the same from the previous year at £3.1 million but gate receipts from Cup games were down by £250,000. TV income was also down by £400,000 reflecting less interest in the club from Sky and foreign broadcasters and also the fact that in the previous season our 5th round FA Cup Tie was on TV. We did not manage to progress at all in the FA Cup, so prize money was down by £125,000 from the previous season. Police costs were down by £110,000 and thus returned to the same level as they were two seasons ago.

The gross cost of running our Football Academy was £650,000 and although we may run one of the cheapest Academies in the country we constantly need to revisit the benefits of running such a system. If we as a club are not willing to give our young players a chance in our first team, then why spend so much on the Academy? If other clubs are allowed to sign our best youngsters without us being adequately compensated for our development cost why should we not play the same game; simply close our Academy and target talented youngsters at other clubs with a view to signing them ourselves at the end of their contracts.

The Save & Support Savings Scheme we run in cooperation with Britannia Building Society was our single most important sponsorship agreement earning the club £750,000. I would like to use the opportunity to thank all of those who support the club by keeping part or all of their savings in this account and again urge those who still have not opened an account to do so at the earliest opportunity. I would also like to thank Britannia Building Society for their support because not only do they provide the facility to operate the Save & Support Account but they are also our Club sponsors and Stadium sponsor.

During the financial year the club also received a modest amount of transfer income from the transfer of James O'Connor, Siarhei Shtaniuk, Marc Goodfellow, Brian Wilson and Chris Iwelumo.

CHAIRMAN'S STATEMENT

Football results

Following our narrow escape from relegation in the 2002/2003 season the Manager started to rebuild the squad in the summer of 2003. There were plenty of new faces during the season. Carl Asaba, Ed De Goey, John Eustace, Clint Hill, Darrell Russell and Gifton Noel-Williams joined the club before the start of the season. Ade Akinbiyi, John Halls, Gerry Taggart and Paul Williams were signed during the season. In all, ten new senior players on permanent contracts, and in addition we signed Keith Andrews, Brynjar Björn Gunnarsson, Sebastian Svard and Frazer Richardson on short term contracts during the season.

The season started well with the team winning their first three league matches as well as beating Manchester United comfortably 3-1 in a friendly at the Britannia Stadium in front of 21,000 spectators after our League season had started. Results then started to go against us and by the start of December we were staring a harsh relegation battle in the face. An away victory against West Ham marked the start of a tremendous run that would have delivered almost an automatic promotion place had it started in August and not December. We had a realistic chance to reach the Play-Offs but two bad results over Easter put an end to that dream.

Looking back at the long list of new players joining the club over the past few years I can understand the disappointment of supporters when the club only signed two players, Dave Brammer and Steve Simonsen, before this current season. The problem is that our supporters have become used to the club signing a lot of new players every year and when our renewal rate drops down to a more normal level like this season supporters feel that something is wrong. The fact is that if the team is doing well like it did in the second half of last season there is not the same need to replace the players as when the team is not doing so well. I am not saying that we could not have used the services of some wide players this season to fill the void left by Peter Hoekstra and Kris Commons but ten new players are not needed when we have a team that has done well in the previous season.

Football is a team sport but looking back at last season two players deserve a special mention. Gerry Taggart came to us in our hour of need and his arrival was what I believe turned our season around. Taggart brought great positional sense, organisational ability and vast experience to the side.

Last May Peter Hoekstra hung up his football boots for good. Hoekstra was an inspirational player for Stoke City and I do not believe the supporters ever fully realised or appreciated how fortunate we were to have him in our team. His performance and hat-trick against Reading was for me the highlight of last season and I am grateful I had the opportunity to witness it. He will be sorely missed but I would like to thank him for his time with us and the entertainment he gave us. John Rudge also deserves full credit for bringing him over from Holland.

The Season Ticket Pledge

In January 2004 our then Commercial Manager, Tim Gallimore, came forward with the innovative idea of trying to sell more season tickets by drastically reducing prices. This is not the first time such an idea has been raised but the conventional wisdom is that price reduction of season tickets will reduce total match income. We asked supporters to pledge their support for drastically reduced season ticket prices and if enough supporters pledged to buy a reduced price season ticket we would go ahead with the new price plan, if the support was not there then the old prices would prevail. If this is not a case of giving power to the people I do not know what is. The response from supporters was fantastic and we ended up with almost 10,000 season tickets sold which is better than most people were prepared to hope for.

The season ticket pledge was only the first step to increase our gate receipts and make the club better equipped to compete with the bigger clubs of this division. The next challenge is to keep a large proportion of the new season ticket holders while gradually moving our season ticket prices more in line with other clubs in our division. At the same time we will also need to improve our appeal to our younger supporters because they are the key to our future prosperity.

CHAIRMAN'S STATEMENT

The Path To Promotion

As soon as last season had ended in early May 2004 I started to lay the plans for a financial package that would allow the club to strengthen our squad and make a serious challenge for promotion. The fundamental idea was for the four main shareholders - Stoke Holding S.A, Peter Coates, Keith Humphreys and Phil Rawlins - to provide funds proportionate to their ownership of the club. Sadly it took almost five months to agree the details of this financial package but on the 2 October 2004 an agreement was finally signed.

This agreement changed all interest bearing shareholders' loans into interest free loans and extended the duration of most of those loans until the autumn of 2006. The agreement also called for new funds to be injected into the club from the main shareholders proportionally to their current shareholding in the form of new Share Capital and it also paved the way for new shares to be offered to supporters in the near future.

For one reason or another, we as a club failed to use the financial resources available to strengthen the team until we had almost missed the boat in getting into the Play-Offs. The future will perhaps tell how serious this failure to build on our good start to the season was but we must make sure that we do not repeat the same mistake before the start of next season which should be a good season for Stoke City provided the available funds are spent wisely.

Outlook For The Near Future

Although we are more than half way through our season we cannot say for sure how it will end. We had hoped for a better performance on the pitch based on our good run during the second half of last season but we have been unable to sustain that good run for a long enough period. There are already some positive things to be thankful for from this season such as going to the top of the Coca Cola Championship eight matches into the season and, even though it only lasted a week, it showed what this club can achieve. We have had much better attendance than last season and we had a financially favourable draw in the FA Cup and a great performance at Highbury.

The club is heading in the right direction on most fronts and although we have been unable to maintain our great start to the season there is no need to panic. I am convinced that we are building a solid foundation for a serious promotion push and when we reach our goal of promotion to the Premiership the journey will have been worth it for all involved.

Gunnar Þór Gíslason,
Chairman.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 May 2004.

ACTIVITIES

The principal activity is that of a professional football club.

REVIEW OF THE BUSINESS AND FUTURE PROSPECTS

A review of the Club's results for the year and of its future prospects is contained in the Chairman's statement on pages 2 to 4.

DIVIDENDS AND TRANSFERS FROM RESERVES

The loss for the year amounted to £593,000 (2003 - £1,280,000 loss) which has been withdrawn from reserves. The directors do not recommend payment of preference or ordinary share dividends.

DIRECTORS AND THEIR INTERESTS

The names of the present members of the board are set out on page 1.

Jonathan Fuller resigned as Chief Executive on 30 June 2004.

Tony Scholes was appointed as Chief Executive on 20 September 2004.

Except as noted below, no directors had any interest (including family interest) in the shares of the company.

	£1 Preference shares		£1 Ordinary shares	
	2004	2003	2004	2003
Beneficial:				
K A Humphreys	18	18	3	3
P Coates	29	29	88,088	88,088

At 31 May 2004 The PNR Partnership LLP (formerly The Chatham Group) held 64,000 (2003 - 64,000) ordinary shares. Mr P Rawlins is deemed to have an interest in the shares held by The PNR Partnership LLP as he is a partner within the partnership.

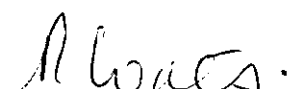
At 31 May 2004 Ramsdell Estates Limited held 88,021 (2003 - 88,021) ordinary shares and 75 (2003 - 75) preference shares. Mr K A Humphreys is deemed to have an interest in the shares held by Ramsdell Estates Limited as he is a director of the company.

A Sigurvinnsson and S Thorisson own 16,341 and 1,362 ordinary shares in Stoke Holding SA, both holdings being less than 1% of the total issued share capital of that company as at 31 May 2004. Stoke Holding SA owned 59.3% of Stoke City Football Club Limited at 31 May 2004.

AUDITORS

A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 as at the end of the financial year 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 accounts;
- 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 are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STOKE CITY FOOTBALL CLUB LIMITED

We have audited the financial statements of Stoke City Football Club Limited for the year ended 31 May 2004 which comprise the profit and loss account, the balance sheet, cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 1985. We also report 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.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with United Kingdom 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.

Going concern

In forming our opinion, we have considered the adequacy of the disclosure made in note 2 to the accounts concerning the availability of continued finance for the company. The accounts have been prepared on a going concern basis, the validity of which depends on the future funding of the company. The accounts do not include any adjustments which would result from further funding not being secured. In view of the significance of the uncertainty we consider it should be brought to your attention, but our audit report is not qualified in this respect.

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 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Manchester

3. March 2005

PROFIT AND LOSS ACCOUNT
Year ended 31 May 2004

	Note	Operations excluding player trading 2004 £'000	Player trading (Note 6) 2004 £'000	Total 2004 £'000	Total 2003 £'000
TURNOVER	1,3	7,559	-	7,559	8,030
Operating expenses		(7,931)	(413)	(8,344)	(9,306)
GROSS LOSS		(372)	(413)	(785)	(1,276)
Other operating income		333	-	333	332
OPERATING LOSS	5	(39)	(413)	(452)	(944)
Profit on disposal of players' registrations/ team management compensation	6	-	464	464	257
PROFIT/(LOSS) BEFORE INTEREST AND TAXATION		(39)	51	12	(687)
Interest payable	7			(605)	(593)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION				(593)	(1,280)
Tax on loss on ordinary activities	8			-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION				(593)	(1,280)

All the above results derive from continuing activities.

There were no recognised gains and losses during the current and previous year other than those dealt with in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented.

STOKE CITY FOOTBALL CLUB LIMITED

BALANCE SHEET 31 May 2004

	Note	2004 £'000	2003 £'000
FIXED ASSETS			
Intangible assets	9	385	371
Tangible assets	10	958	1,074
Investments	11	9,000	9,000
		<u>10,343</u>	<u>10,445</u>
CURRENT ASSETS			
Stocks	12	226	132
Debtors	13	907	2,022
Investments	14	39	39
Cash at bank and in hand		402	516
		<u>1,574</u>	<u>2,709</u>
CREDITORS: amounts falling due within one year	15	<u>(11,056)</u>	<u>(11,742)</u>
NET CURRENT LIABILITIES		<u>(9,482)</u>	<u>(9,033)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>861</u>	<u>1,412</u>
CREDITORS: amounts falling due after more than one year			
Other creditors	16	(2,793)	(3,036)
Unsecured convertible loan stock	16	(828)	(542)
Provisions for liabilities and charges	18	(113)	(139)
		<u>(2,873)</u>	<u>(2,305)</u>
CAPITAL AND RESERVES			
Called up share capital	19	646	643
Share premium account	20	579	557
Revaluation reserve	20	16	16
Profit and loss account - deficit	20	(4,114)	(3,521)
Equity Shareholders' Funds - deficit	21	<u>(2,873)</u>	<u>(2,305)</u>

These financial statements were approved by the Board of Directors on 21 January 2005

Signed on behalf of the Board of Directors



Director

CASH FLOW STATEMENT
Year ended 31 May 2004

	Note	2004 £'000	2003 £'000
Net cash inflow/(outflow) from operating activities	22	642	(1,274)
Returns on investments and servicing of finance			
Interest paid		(770)	(413)
Net cash outflow from returns on investments and servicing of finance		(770)	(413)
Taxation		-	-
Capital expenditure and financial investment			
Payment to acquire intangible assets		(534)	(297)
Receipts from sales of intangible assets		1,151	943
Payments to acquire tangible assets		(28)	(57)
Receipts from sales of tangible assets		-	5
Net cash inflow from investing activities		589	594
Net cash inflow/(outflow) before financing		461	(1,093)
Financing			
Issue of ordinary shares		25	-
Issue of loan stock		895	800
Repayment of loan stock		(209)	-
Drawdown of term bank loans		-	600
Repayment of bank loans		(1,028)	(368)
Net cash (outflow)/inflow from financing		(317)	1,032
Increase/(decrease) in cash in period	23,24	144	(61)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 May 2004

1. ACCOUNTING POLICIES

The principle accounting policies adopted by the directors are summarised below. They have all been applied consistently throughout the year and preceding year.

Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards.

Turnover

Turnover, exclusive of value added tax, comprises net match receipts and other income arising from the Club's activities and is derived solely from the United Kingdom.

Intangible assets

The third party costs associated with the acquisition of players' registration and coaching staff are capitalised and amortised over the period of their respective contracts. Provision for impairment is made when it becomes clear that any diminution in value is permanent. In accordance with FRS10, no amounts are included for players developed within the Club.

Tangible fixed assets

Tangible fixed assets are depreciated on a straight line basis calculated to write off cost or valuation of the assets over their expected useful lives by equal annual instalments. The rates normally applied are as follows:

Freehold buildings	2% p.a.
Plant and equipment	10 - 33% p.a.
Vehicles	10 - 25% p.a.
Leasehold land and buildings	4 - 25% p.a.

Investment in associated company

The investment in the associated company is stated at cost less any provision for permanent impairment.

Leased assets

Assets acquired under hire purchase agreements are capitalised as tangible assets at fair value and are depreciated over the shorter of the lease term and their estimated useful lives. The corresponding obligation is included as a creditor and the interest element is charged to the profit and loss account over the term of the agreement. Rentals payable under operating leases are charged to the profit and loss account as incurred.

Signing on fees and loyalty bonuses

The Board consider that signing on fees represent a normal part of the employment cost of the player and as such should be charged to the profit and account over the period of the player's contract as the instalment payments are made, except in the circumstances of a player disposal. In that case any remaining signing on fees due are allocated in full against profit on disposal of players' registrations in the year in which the player disposal is made.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 May 2004

1. ACCOUNTING POLICIES (continued)

Stocks

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

Taxation

a) Current Taxation

Current taxation, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or subsequently enacted by the balance sheet day.

b) Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Grants

Grants received from The Football Trust in respect of the building costs of the Britannia Stadium, the freehold of which is owned by the associated company, are treated as deferred income and released to profit and loss account over the useful economic life of the Stadium.

Grants received from The Football Trust and other awarding bodies in respect of other capital expenditure are treated as deferred income and released to profit and loss account over the expected useful lives of the related assets.

Grants received in respect of revenue expenditure and financial support are recognised in the profit and loss account in the year in which the relevant expenditure was incurred.

Pension costs

Certain of the employees of the Club 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 Club 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 charged to the profit and loss account as they become payable.

Contributions are also paid to individuals' money purchase pension schemes. The contributions are charged to profit and loss account in the year in which they become payable.

The assets of all the pension schemes are held separately from those of the Club in independently administered funds.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 May 2004

2. FUTURE COMPANY FINANCING

The company has successfully secured the renewal of its current overdraft facility until July 2005.

The company's cashflow forecasts for the next 12 months, prepared - in the opinion of the directors - on a suitably prudent basis, indicate that there will be periods where the company's funding requirements are moderately in excess of currently available resources. Stoke Holding SA has agreed to continue its support of the working capital requirements of the club for the next 12 months. The directors therefore consider it appropriate to prepare the financial statements on a going concern basis.

3. TURNOVER

Turnover, all of which originates in the UK, comprises the following:

	2004 £'000	2003 £'000
Football activities:		
Gate receipts	3,183	3,438
Football League distributions	758	854
Television and broadcasting fees	133	534
	<u>4,074</u>	<u>4,826</u>
Commercial income:		
Club shops	1,026	818
Other income	2,459	2,386
	<u>3,485</u>	<u>3,204</u>
	<u>7,559</u>	<u>8,030</u>

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2004 £'000	2003 £'000
Directors remuneration		
Fees	26	32
	<u>No</u>	<u>No</u>
Average number of persons employed		
Full time playing staff and scholars	46	41
Other staff	64	59
	<u>110</u>	<u>100</u>
	<u>£'000</u>	<u>£'000</u>
Staff costs during the year		
Wages, salaries and bonuses	4,432	4,995
Social security costs	476	460
Pension costs	67	141
	<u>4,975</u>	<u>5,596</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 May 2004

5. OPERATING LOSS

	2004 £'000	2003 £'000
Operating loss is after charging/(crediting):		
Depreciation of tangible fixed assets	144	164
Amortisation of intangible fixed assets	413	714
Grants released (note 17)	(61)	(61)
Operating lease rentals:		
- property	317	309
- plant, equipment and vehicles	34	40
Auditors remuneration:		
- audit fees	12	10
- non audit charges	5	4

6. PLAYER TRADING

	2004 £'000	2003 £'000
Amortisation of intangible fixed assets	(413)	(714)
Profit on disposal of players' registrations & team management compensation	464	257
	51	(457)

7. INTEREST PAYABLE

	2004 £'000	2003 £'000
Interest payable on bank loans and overdrafts	162	213
Interest payable on convertible loan stock	443	380
	605	593

8. TAX ON LOSS ON ORDINARY ACTIVITIES

Factors affecting the current tax charge for the period

The tax assessed for the period is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2003 – lower than the standard rate of 30%).

The differences are explained below:

	2004 £'000	2003 £'000
Loss on ordinary activities before tax	(593)	(1,280)
	%	%
Tax on loss on ordinary activities at the standard rate	30	30
Factors affecting change:		
Expenses not deductible for tax purposes	(1)	(1)
Capital allowances in excess of depreciation	(4)	2
Movement in short term timing differences	1	(1)
Utilisation of tax losses	(26)	(30)
Current tax charge for the period	-	-

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 May 2004

8. TAX ON LOSS ON ORDINARY ACTIVITIES (continued)

There are no amounts provided for deferred tax at 31 May 2004 or 31 May 2003.

Factors that may affect the future tax charge

A deferred tax asset of £2.0m (2003 - £1.8m) has not been recognised. The asset will be recovered when relevant profits are available against which the timing differences concerned can be set off.

9. INTANGIBLE ASSETS

Players registrations	£'000
Cost	
At 1 June 2003	1,888
Additions	499
Disposals	(1,539)
At 31 May 2004	848
Amortisation	
At 1 June 2003	1,517
Charge for the year	413
Disposals	(1,467)
At 31 May 2004	463
Net book value	
At 31 May 2004	385
At 31 May 2003	371

10. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Plant and vehicles £'000	Total £'000
Cost or valuation			
At 1 June 2003	892	759	1,651
Additions	9	19	28
At 31 May 2004	901	778	1,679
Depreciation			
At 1 June 2003	83	494	577
Charge for the year	69	75	144
At 31 May 2004	152	569	721
Net book value			
At 31 May 2004	749	209	958
At 31 May 2003	809	265	1,074

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 May 2004

11. INVESTMENTS IN ASSOCIATED COMPANY

Investments in Associated company

The company owns 49% of the issued ordinary share capital of Stoke-on-Trent Community Stadium Development Company Limited.

	2004 £'000	2003 £'000
At cost	9,000	9,000

As described in note 1, the directors consider the most appropriate accounting treatment of the investment in associated company is that it should be carried at cost less provision for any impairment.

The Club's share of the associated company's results and net assets, as extracted from that company's unaudited management accounts for the year ended 31 May 2004 and published audited accounts for the 12 months to 31 May 2003, was as follows:

	31 May 2004 (unaudited) £'000	31 May 2003 £'000
Turnover	331	383
Profit before tax	196	200
Taxation	(65)	(56)
Profit after tax	131	144
Fixed assets	7,404	7,415
Current assets	343	289
Liabilities due within one year	(218)	(248)
Liabilities due after more than one year	(619)	(871)
Share of net assets	6,910	6,585

The principal activity of the associated company is the development and management of the Britannia Stadium.

12. STOCKS

	2004 £'000	2003 £'000
Goods for resale	226	132

13. DEBTORS

	2004 £'000	2003 £'000
Trade debtors	262	1,010
Amounts owed by related undertakings	33	23
Other debtors	108	520
Prepayments and accrued income	504	469
	907	2,022

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 May 2004

14. INVESTMENTS HELD AS CURRENT ASSETS

	2004 £'000	2003 £'000
Shares in Stoke Holding SA	39	39

The shares in Stoke Holding SA were purchased at fair value and were held in order to facilitate the exercise of options in Stoke Holding SA by a former employee of Stoke City Football Club Limited.

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £'000	2003 £'000
Bank loans and overdrafts – secured (note 16)	1,738	3,024
Convertible unsecured loan stock (note 16)	5,908	5,508
Trade creditors	333	628
Amounts owed to parent undertaking	87	230
Amounts owed to related undertaking	19	20
Accruals	406	427
Deferred income	1,983	1,470
Deferred grants (note 17)	61	61
Taxation and social security	521	374
	<u>11,056</u>	<u>11,742</u>

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2004 £'000	2003 £'000
Deferred income	392	573
Deferred grants (note 17)	2,401	2,463
	<u>2,793</u>	<u>3,036</u>
Convertible unsecured loan stock (see below)	828	542
	<u>3,621</u>	<u>3,578</u>

	2004 £'000	2003 £'000
Analysis of borrowings:		
Bank loans and overdrafts - secured	1,738	3,024
Convertible unsecured loan stock	6,736	6,050
	<u>8,474</u>	<u>9,074</u>
Analysis of loan repayments:		
Within one year	7,646	8,532
Between two and five years	828	542
	<u>8,474</u>	<u>9,074</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 May 2004

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

Bank loans and overdrafts

Included within amounts repayable within one year are bank loans of £1,738,000. Although technically repayable upon demand a schedule of repayments has been agreed, over the remaining periods of 2¾, 2¾ and 8¼ years, on loans of, £728,000, £490,000 and £520,000 respectively. A working capital loan of £600,000 was repaid on 30 September 2003.

The bank loans are secured by way of a fixed and floating charge over all the assets of the Club and a legal charge over the Club's leasehold interest in the Britannia Stadium.

Deferred income

Deferred income consists of season tickets, sponsorship and other elements of income which have been received prior to the year end in respect of future football seasons. It includes £101,000 received under an advance discount agreement with a brewery, this amount being secured by a legal charge over the leasehold interest in the Britannia Stadium.

Convertible Unsecured Loan Stock

There are four tranches of loan stock (the narrative below applies to notes 15 and 16):

(a) £4,500,000 of the convertible unsecured loan stock may be invested at a holder's option into fully paid ordinary shares of £1 each at the rate of one ordinary share for every £8 of convertible loan stock. Full conversion of the outstanding rights would result in the issue of 562,500 ordinary shares.

If the conversion option is not exercised the loan stock is redeemable at nominal value of £4,500,000 together with accrued interest. The loan stock bears interest at the rate of 7½% per annum which is charged to the profit and loss account on a straight line basis.

b) £1,200,000 of convertible loan stock which may be invested at a holder's option into fully paid ordinary shares of £1 each for each £1 of loan stock.

If the conversion option is not exercised the loan stock is redeemable at nominal value of £1,200,000 together with accrued interest. The loan stock bears interest at the rate of 7% per annum which is charged to the profit and loss account on a straight line basis.

c) £495,000 of convertible loan stock which may be invested at a holder's option into fully paid ordinary shares of £1 each for each £1 of loan stock. If the conversion option is not exercised the loan stock is redeemable at nominal value of £495,000 together with accrued interest. The loan stock bears interest at the rate of 6.5% per annum which is charged to the profit and loss account on a straight line basis.

d) £750,000 of interest free convertible loan stock was due to be repaid in equal monthly instalments over a three year period commencing August 2003. Following the monthly payment made in July 2004, the loan stock holder agreed to a suspension of monthly payments for a period of twelve months by converting £250,000 worth of loan stock into share capital.

The loan stock described in a) to c) above were previously convertible at any time up to 12 November 2004, 25 September 2004 and 30 September 2005 respectively. The stockholders have agreed to extend the period during which this loan stock may be invested at a holder's option into fully paid ordinary shares to any time up to 1 September 2006. If the conversion option is not exercised the stock is redeemable on 1 September 2006 at nominal value of £4,500,000, £1,200,000 and £495,000 respectively, together with accrued interest.

From 1 October 2004 the loan stock described in a) to c) is interest free.

The consideration received in the year for the issue of the new loan stock consisted of cash injections of £895,000 for working capital purposes, received between 1 July 2003 and 15 January 2004.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2004

17. DEFERRED GRANTS

	2004	2003
	£'000	£'000
Balance at 1 June 2003	2,523	2,584
Grants released to profit and loss account (note 5)	(61)	(61)
Balance at 31 May 2004	<u>2,462</u>	<u>2,523</u>

18. PROVISIONS FOR LIABILITIES AND CHARGES

	Pension obligations
	£'000
Balance at 1 June 2003	139
Amounts paid	(26)
Balance at 31 May 2004	<u>113</u>

Certain staff of the Company are members of either the Football League Limited Players Retirement Income Scheme, a defined contribution scheme, or the Football League Limited Pension and Life Assurance Scheme ("FLLPLAS"), a defined benefit scheme. As the Company is one of a number of participating employers in the FLLPLAS, it is not possible to allocate any actuarial surplus or deficit on a meaningful basis and consequently contributions are expensed in the profit and loss account as they become payable. The assets of the scheme are held separately from those of the company, being invested with insurance companies.

At 1 April 2003 a further MFR deficit was identified in the scheme, which increased the outstanding deficit allocated to the Company to £139,000 resulting in an increase in contributions advised by the Actuary. The additional £89,000 provision was taken to profit and loss in the prior year.

19. CALLED UP SHARE CAPITAL

	2004	2003
	£'000	£'000
Authorised:		
5.25% Cumulative preference shares of £1 each	1	1
Ordinary shares of £1 each	3,522	2,522
	<u>3,523</u>	<u>2,523</u>
Allotted and fully paid:		
5.25% Cumulative preference shares of £1 each	1	1
Ordinary shares of £1 each	645	642
	<u>646</u>	<u>643</u>

On 15 December 2003 2,500 Ordinary shares of £1 each were issued for cash at a premium of £9 per share.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 May 2004

20. STATEMENT OF MOVEMENTS ON RESERVES

	Share premium £'000	Revaluation reserve £'000	Profit and loss account £'000	Total 2004 £'000
Balance at 31 May 2003	557	16	(3,521)	(2,948)
Premium on new shares issued	22	-	-	22
Loss for year	-	-	(593)	(593)
Balance at 31 May 2004	<u>579</u>	<u>16</u>	<u>(4,114)</u>	<u>(3,519)</u>

21. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2004 £'000	2003 £'000
Loss for the financial year	(593)	(1,280)
Net increase in shareholders' deficit	(593)	(1,280)
New shares issued	25	-
Opening shareholders' deficit	(2,305)	(1,025)
Closing shareholders' deficit	<u>(2,873)</u>	<u>(2,305)</u>

22. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2004 £'000	2003 £'000
Profit/(loss) before interest and taxation	12	(687)
Profit on disposal of intangible assets	(464)	(257)
Operating loss	(452)	(944)
Amortisation of intangible assets	413	714
Depreciation of tangible assets	144	164
Grants released	(61)	(61)
Write off of current investment	-	38
(Increase)/decrease in stocks	(94)	56
Decrease/(increase) in debtors	1,115	(164)
Decrease in creditors	(397)	(1,125)
Decrease in provisions	(26)	48
Net cash inflow/(outflow) from operating activities	<u>642</u>	<u>(1,274)</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 May 2004

23. ANALYSIS OF CHANGES IN NET DEBT

	At 31 May 2003 £'000	Cash flows £'000	At 31 May 2004 £'000
Cash at bank and in hand	516	(114)	402
Overdraft	(258)	258	-
	<u>258</u>	<u>144</u>	<u>402</u>
Debt due within 1 year	(8,274)	628	(7,646)
Debt due after 1 year	(542)	(286)	(828)
	<u>(8,558)</u>	<u>486</u>	<u>(8,072)</u>

24. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2004 £'000	2003 £'000
Increase/(decrease) in cash in year	144	(61)
Net decrease/(increase) in term bank loans	1,028	(232)
Issue of loan stock	(895)	(800)
Repayment of loan stock	209	-
	<u>486</u>	<u>(1,093)</u>
Change in net debt		
Net debt at 31 May 2003	(8,558)	(7,465)
Net debt at 31 May 2004	<u>(8,072)</u>	<u>(8,558)</u>

25. COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

There were no capital commitments at 31 May 2004 (31 May 2003 – nil).

Operating lease commitments:

	Land and buildings		Other operating leases	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Leases expiring:				
Within 1 year	-	-	29	1
In 2-5 years	24	-	-	33
After more than 5 years	293	317	-	-
	<u>317</u>	<u>317</u>	<u>29</u>	<u>34</u>

Contracts with employees and other clubs

In common with normal practice, certain employees are entitled to future payments related to performance, mainly dependent on the success of the team and/or individuals. Similar terms exist in contracts for the purchase and sale of players' registrations. The directors consider that any such payments will have no material impact on future accounts.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 May 2004

25. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Ground safety grants

When a facility which has attracted a grant ceases to be used or is sold, The Football Trust reserves the right to call for repayment of all or a proportion of any grant made.

Collateral security

The company has granted a legal charge over its interest in the Britannia Stadium as collateral security for the borrowings of the associated company which at the year end were £1,735,000.

26. RELATED PARTY TRANSACTIONS

Mr S G Thorisson and Mr G T Gislason are directors of Stoke on Trent Community Stadium Development Company Limited an associated company which owns the freehold to the Britannia Stadium.

Transactions with related parties during the year were as follows:

	2004		2003	
	Value of transactions £'000	Balance at end of year £'000	Value of transactions £'000	Balance at end of year £'000
Payable by Stoke City Football Club Limited:				
Stoke-on-Trent Community Stadium Development Company Limited:				
Rent and Stadium Events	335	-	282	111
Stoke Holding SA: Interest on loan stock	541	-	338	230
The PNR Partnership LLP (formerly The Chatham Group); interest on loan stock	10	-	3	3
Ramsdell Estates Limited: interest on loan stock	25	-	11	9
Peter Coates: interest on loan stock	25	-	11	9
Payable to Stoke City Football Club Limited				
Stoke-on-Trent Community Stadium Development Company Limited:	158	28	83	23

Details relating to the investment in Stoke-on-Trent Community Stadium Development Company Limited are given in note 11.

All contract terms were agreed on an arms length basis and the directors have reviewed and approved all of the above arrangements.

27. ULTIMATE COMPANY OWNERSHIP

The parent company, and ultimate controlling party, is Stoke Holding SA which is registered in Luxembourg.

The registered office is 12 Rue Guillaume Schneider L-2522 Luxembourg.