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PRESTON NORTH END PLC
ANNUAL REPORT & ACCOUNTS
2002.03

Chairman's Statement

On behalf of the Board of Directors of Preston North End plc, I am pleased to present our annual report and accounts for 2002-03. For numerous reasons this was a year of consolidation both on and off the pitch. We finished the season in mid-table and had mixed fortunes in cup competitions, doing reasonably well in the Worthington Cup but exiting the FA Cup at an early stage.

On the financial front, we are still experiencing the major after effects of the collapse of ITV Digital. There can be no doubt that this has changed the face of league football and we can take heart from the fact that due to the actions taken by the Board, we have survived in a stable financial position whilst many other clubs are in administration or very close to it.

Largely as a result of this situation, turnover for the year is 42% lower than last year and the Company generated an operating loss (before depreciation and amortisation) of £2.59 million (2002: £1.86 million profit) and a loss before taxation of £1.99 million (2002: £4.4 million profit). These figures were adversely affected by the fact that the ITV Digital collapse required us to restructure and reduce our cost base which had a negative impact of £0.6 million. On the positive side, our dealings in the transfer market and the agreement with the National Football Museum (which granted a sixty year rent free lease in return for net proceeds of £1.7million), helped to keep us in a stable situation. The balance sheet remains strong with net assets of £9.0 million and net debt of £0.6 million.

Accounting Standards require us to depreciate the value of our players over the length of their contracts and consequently our playing squad is currently valued at £2.5 million. In the current economic environment it is difficult to assess the true value of the squad, however the Board and Football Management believe it to be significantly in excess of £2.5million.

Whilst our fortunes on the field may have been mixed, we have continued to make excellent progress on a number of fronts during the year. The former snooker club which previously blighted the Sir Tom Finney stand has been converted into modern offices enabling us to locate all our staff in a good working environment. Additionally, we recently opened the Club's new retail megastore which is probably one of the best Club shop facilities in the Football League. We are currently completing a 99 year lease on our Springfields training ground and our investment there will give us excellent training facilities. We have also recently commenced work on developing new first class changing and medical facilities under the Alan Kelly Town End. In summary, we have continued to invest heavily in all aspects of the Club and its infrastructure despite the difficult economic environment of the last 12 months.

Football

The economic environment surrounding football has changed significantly during the year. The number and value of transfers have reduced significantly and there are now real signs that the level of player wages are reducing to more manageable levels.

In the 2002/3 season the Club's wage bill was 74% of turnover (2002: 42%) although in absolute terms, it remained at similar levels to last year. The Board acknowledges the need to reduce wage costs significantly, whilst at the same time honouring its contractual obligations. Prior to the collapse of ITV Digital, the Board sought to protect the Club's playing assets by negotiating new contracts. As a result only one player was out of contract this summer. Eleven players' contracts are due for renewal next summer, with a similar number the year after.

We continue to invest in the squad to achieve success in the Football League. During the year we spent £1.3 million recruiting Ricardo Fuller, Tyrone Mears, Marlon Broomes, Eddie Lewis, George Koumantarakis, Brian O'Neil, Jonathan Gould and Simon Lynch.

Prior to the year end we agreed settlements for the outstanding balance of the contracts of Mark Rankine, Tepi Moilenan and Iain Anderson and have released Colin Murdock.

Following the recent signings of Lee Briscoe and Claude Davis we now have a 25 man squad capable of challenging for promotion to the Premiership.

In June 2003 the role of Assistant Manager, previously performed by Kelham O'Hanlon, was made redundant as part of the Club's cost reduction programme. The Board would like to place on record its appreciation of Kelham's efforts during the many years he served the Club.

Average attendances slipped back to 13,888 (2002: 14,929) as a result of the reduced levels of away support combined with the team's failure to mount a challenge for the play-offs.

Youth Development

Once again, the Youth teams produced some excellent performances, winning the North West Youth Alliance League and the Lancashire Youth Cup, and culminating in reaching the final of this year's prestigious Northern Ireland Milk Cup in which they were narrowly beaten in extra time by Manchester United. En route to the final, the team beat Dynamo Kiev, Leeds United and Catolica of Chile.

During the year, Alan McCormack, David Elebert, Ciaran Lyng, Paul Carvill and Andrew Lonergan have all achieved international recognition.

Commercial Activities
As I mentioned earlier, the collapse of ITV Digital has had an enormous impact on the football industry's finances. When comparing turnover to last year, £3.1 million of the shortfall can be attributed to the reduced value of television rights.

The Football League agreement with NTL to provide internet content has been renegotiated during the year with the effect that revenue generation is significantly below previous years.

Commercial activities continue to perform well with hospitality, advertising and sponsorship all generating significant income. We continue to look for new revenue streams.

In January 2003 the franchise operator of the Club shop, VI (UK) Limited appointed liquidators due to financial problems. The Board took the view that with a significant proportion of the season elapsed and the delivery times associated with the products, the shop should remain closed until the summer. In July we opened our new retail outlet, three times bigger than the previous one. The initial response has been very encouraging.

In May 2003, we concluded an agreement with Admiral to supply all the Club's training and matchday kit. This is the first time for many years that the Club has been able to attract a major brand as kit supplier.

Community
Football in the Community continues to play an important part in the development of the Club's supporter base. During the year it worked with 14,000 people covering Preston, Chorley, South Ribble, West and North Lancashire and the Lake District. It is aimed at areas such as Youth Inclusion Projects, schools, special needs and disability groups. The high standard of these courses has been recognised by the award of the FA Charter Standard.

During the year Charles Clarke, the Minister for Education, officially opened the Playing for Success project based in the community offices under the Town End. The project is specifically targeted at children in Key Stages 2 and 3 with the aim of improving literacy, numeracy and ICT skills.

Board Composition
On the 9th October 2002 Hugh Nash resigned his position as a non-executive Director and on the 31st October 2002 Tony Scholes resigned from his position. We thank them both for their contribution to the Company.

Future Prospects
In conclusion, we have established ourselves as one of the First Division's leading clubs and whilst our league position was disappointing overall, we nevertheless need to remember how far we have come in such a short time. We have continued to invest in the playing squad and have continued to improve the Club infrastructure by investing in our training ground, modern offices, Club shop and changing and medical facilities. Preston North End plc is well positioned both on and off the field to make continuing progress.

Finally, I would like to put on the record my thanks to our shareholders, our employees, and of course our supporters for their backing in what has, undoubtedly, been a difficult economic climate.

Derek Shaw
Chairman

Report of the Directors

The Directors present their annual report and the audited financial statements for the year ended 30 June 2003.

Principal activities and business review
The principal activities of the Group are the operation of a professional Football League Club, together with related and ancillary activities.

A review of the activities of the Group and a brief summary of the Group's future development plans are set out in the Chairman's Statement. The results for the year are set out in the profit and loss account on page 6. The loss for the financial year after tax amounted to £1,790,000 *(2002: profit £4,365,000).*

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

Fixed assets
The directors believe the market value of the Group's land and buildings to be in excess of their book value (see note 14).

Directors and their interests
The interests of the directors of the Company at the end of the year in the ordinary share capital of the Company were as follows:

	As at 30 June 2003 No of shares	As at 30 June 2002 or date of appointment No of shares
D Shaw, Chairman	**911,192**	911,192
S Jackson (appointed 22 August 2002)	**861,082**	861,082
SM Beard	**-**	-
DW Taylor	**1,000**	1,000

HP Nash resigned as a director on 9 October 2002. AJ Scholes resigned a director on 31 October 2002.

Incorporated within Mr Shaw's interest in the share capital of the Company are 861,082 shares owned by Friends of Preston North End Limited. Ribble Valley Shelving Limited, a Company controlled by Mr Shaw, owns 25% of the share capital of Friends of Preston North End Limited.

Incorporated within Mr Jackson's interest in the share capital of the Company are 861,082 shares owned by Friends of Preston North End Limited. Newreg Limited, a Company controlled by Mr Jackson, owns 25% of the share capital of Friends of Preston North End Limited.

In accordance with the Company's Articles of Association, DW Taylor retires by rotation and being eligible, offers himself for re-election.

The mid market price at 30 June 2003 was 115p. During the year the highest mid market price was 120p and the lowest mid market price was 112.5p.

The Company maintains liability insurance for its directors and officers.

Corporate governance
The Board of Directors fully supports the underlying principles of corporate governance recommended by the Combined Code, notwithstanding that it is not required to comply with such recommendations.

The Board generally meets on a quarterly basis, with further meetings as they are required. It considers all issues relating to the strategy, direction and future development of the Group.

Internal control
The Board has overall responsibility for the Group's system of internal control. Although no system of internal control can provide absolute assurance regarding the reliability of financial information and security of assets, the Group has established a system of internal control which is designed to provide reasonable assurance against material misstatement or loss. In addition, the Board regularly reviews the major risks faced by the Company.

The key procedures that have been established by the directors are as follows:

- Comprehensive budgets approved by the Board;
- Regular consideration by the Board of actual results compared with budgets;
- Clearly defined levels of financial authority;
- Regular assessments of the playing staff valuations.

Treasury policy and financial risk management
Treasury policies are subject to Board approval and are implemented on a day to day basis by the Finance Director.

All Group borrowings are in pounds sterling and predominantly comprise borrowing facilities carrying base related floating rates. The outlook for UK interest rates is regularly monitored and borrowing decisions are adapted to suit prevailing conditions.

Going concern
After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to prepare the financial statements on a going concern basis.

Charitable and political donations
Charitable contributions during the period totalled £2,000 (2002: £3,000). No political contributions were made.

Employee involvement
It is the Group's policy to keep employees informed on matters affecting them as employees and to make them aware of the factors influencing the Group's performance. This is done through announcements and staff briefings.

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 the employee 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.

Health and safety
The Group's policy is to ensure that it maintains a working environment which will minimise the risk to the health and safety of employees. Health and safety is an integral part of good business management and accordingly high standards are required.

Payment to suppliers
The Group supports the CBI initiative to address the problem of delayed payments to suppliers. Consequently, it is the Group's policy to settle the terms of payment with suppliers when business is agreed, to ensure that suppliers are made aware of them and to pay bills in accordance with these terms. The ratio, expressed in days, between the amounts invoiced to the Company by its suppliers and the amount owed to its trade creditors at the end of the year was 34 (2002: 34).

Auditors
In accordance with section 385 of the Companies Act 1985, a resolution to re-appoint KPMG Audit Plc as auditors will be proposed at the forthcoming Annual General Meeting.

By order of the board

SM Beard
Company Secretary

18 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 the Group and of the Group's 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 Group 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 Group and to prevent and detect any fraud and other irregularities.

kpmg

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Independent auditor's report to the members of Preston North End plc

We have audited the financial statements on pages 6 to 19.

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 Report of the Directors and, as described on page 4, 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 1985. We also report to you if, in our opinion, the Report of the Directors 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 Group is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications of 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 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 affairs of the Company and the Group as at 30 June 2003 and of the loss of the Group 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

18 September 2003

Consolidated profit and loss account

for the year ended 30 June 2003

	Note	2003 £000	2002 £000
Turnover	2	**5,733**	9,889
Staff costs – normal	6	**(5,892)**	(5,962)
– exceptional	6	**(576)**	-
		(6,468)	(5,962)
Other operating charges		**(1,855)**	(2,069)
Group operating (loss)/profit before depreciation and amortisation of player registrations		**(2,590)**	1,858
Depreciation and amortisation of player registrations	3	**(1,876)**	(1,586)
Group operating (loss)/profit		**(4,466)**	272
Share of operating loss in joint ventures		**-**	(4)
Total operating (loss)/profit		**(4,466)**	268
Profit on sale of fixed assets	4,5	**2,573**	4,274
Other interest receivable and similar income	8	**38**	41
Interest payable and similar charges	9	**(136)**	(178)
(Loss)/profit on ordinary activities before taxation		**(1,991)**	4,405
Tax on (loss)/profit on ordinary activities	10	**201**	(40)
Retained (loss)/profit for the year		**(1,790)**	4,365
(Loss)/earnings per share (basic and diluted)	11	**(54.3)p**	132.4p

All amounts in 2002 and 2003 relate to continuing operations.

Consolidated statement of total recognised gains and losses

for the year ended 30 June 2003

The consolidated profit and loss account includes the only gains and losses of the Group for the current and prior year.

Consolidated statement of historical cost profits and losses

for the year ended 30 June 2003

	2003 £000	2002 £000
Reported (loss)/profit on ordinary activities before taxation	**(1,991)**	4,405
Difference between a historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	**22**	22
Historical cost (loss)/profit on ordinary activities before taxation	**(1,969)**	4,427
Historical cost (loss)/profit on ordinary activities after taxation	**(1,768)**	4,387

Consolidated balance sheet

at 30 June 2003

	Note	2003		2002	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	13		**2,467**		2,927
Tangible assets	14		**11,536**		12,094
Investment in joint venture	16		**-**		14
			14,003		15,035
Current assets					
Stocks	17	**52**		38	
Debtors	18	**1,600**		2,870	
Cash at bank and in hand		**1,843**		2,279	
		3,495		5,187	
Creditors: amounts falling due within one year	19	**(3,488)**		(3,699)	
Net current assets			**7**		1,488
Total assets less current liabilities			**14,010**		16,523
Creditors: amounts falling due after more than one year	20		**(4,201)**		(4,723)
Provisions for liabilities and charges	21		**(856)**		(1,057)
Net assets			**8,953**		10,743
Capital and reserves					
Called up share capital	23		**3,296**		3,296
Share premium account	24		**7,051**		7,051
Revaluation reserve	24		**976**		998
Profit and loss account	24		**(2,370)**		(602)
Equity shareholders' funds	25		**8,953**		10,743

These financial statements were approved by the Board on 18 September 2003 and were signed on its behalf by:

Derek Shaw

D Shaw
Chairman

SM Beard
Director

Company balance sheet

at 30 June 2003

	Note	2003		2002	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	14		11,536		12,094
Investments	15		289		331
			11,825		12,425
Current assets					
Stocks	17	52		38	
Debtors	18	9,250		7,369	
Cash at bank and in hand		1,843		2,279	
		11,145		9,686	
Creditors: amounts falling due within one year	19	(3,018)		(2,572)	
Net current assets			8,127		7,114
Total assets less current liabilities			19,952		19,539
Creditors: amounts falling due after more than one year	20		(4,201)		(4,723)
Provisions for liabilities and charges	21		(856)		(1,057)
Net assets			14,895		13,759
Capital and reserves					
Called up share capital	23		3,296		3,296
Share premium account	24		7,051		7,051
Revaluation reserve	24		976		998
Profit and loss account	24		3,572		2,414
Equity shareholders' funds			14,895		13,759

These financial statements were approved by the Board on 18 September 2003 and were signed on its behalf by:

D Shaw
Chairman

SM Beard
Director

Consolidated cash flow statement

for the year ended 30 June 2003

	Note	**2003** **£000**	2002 £000
Net cash (outflow)/ inflow from operating activities	*26*	**(2,201)**	2,425
Return on investments and servicing of finance	*27*	**(98)**	(137)
Capital expenditure	*27*	**2,427**	(697)
Acquisitions	*27*	**-**	(2)
Cash inflow before financing		**128**	1,589
Financing	*27*	**(564)**	85
(Decrease)/increase in cash in the year	*28*	**(436)**	1,674

Reconciliation of net cash flow to movement in net debt

for the year ended 30 June 2003

	2003 **£000**	2002 £000
(Decrease)/increase in cash in the year	**(436)**	1,674
Cash outflow from change in debt	**564**	372
New hire purchase agreements	**-**	(457)
Movement in net debt in the year	**128**	1,589
Net debt at beginning of year	**(715)**	(2,304)
Net debt at end of year	**(587)**	(715)

Notes

(forming part of the financial statements)

1. Accounting policies

a) ***Accounting convention***

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

b) ***Basis of consolidation***

The consolidated financial statements include the financial statements of the Company and its subsidiary undertaking made up to 30 June 2003. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. The Group's share of the profits less losses of joint ventures is included in the consolidated profit and loss account and its interest in their net assets, is included in investments in the consolidated balance sheet.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

c) ***Investments***

In the Company's financial statements investments in subsidiary undertakings and joint ventures are stated at cost less amounts written off for any permanent diminution in value. Loans to joint ventures are included within investments.

d) ***Player registrations and signing on fees***

Transfer fees and amounts paid to third parties for player registrations are capitalised as intangible fixed assets and are amortised on a straight line basis over the period of the respective player's initial contract. Any transfer fees payable as a result of the occurrence of one or more uncertain future events are capitalised when it is probable such an event will occur.

Player registrations are assessed on an annual basis and impairment losses arising are charged to the profit and loss account in the period in which they arise. Any surpluses arising are not accounted for.

Player signing on fees have been expensed to the profit and loss account as wages and salaries over the period to which they relate. The profit/(loss) on the disposal of a player registration is calculated after charging any signing on fees which become payable as a result of the disposal.

e) ***Depreciation***

Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic life as follows:

Freehold buildings	- 50 years
Leasehold land and buildings	- 50 years
Plant and equipment	- 4 to 40 years

No depreciation is provided on freehold land.

f) ***Grants***

Grants in respect of capital expenditure on assets which are depreciated are treated as deferred income, a portion of which is transferred to revenue annually over the estimated useful life of the asset. Grants are recognised in the financial statements when they are received.

g) ***Leases***

Assets acquired under finance leases and similar hire purchase contracts are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

h) ***Stocks***

Stocks, which comprise consumables, are stated at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis.

i) ***Related party transactions***

The directors have taken advantage of the exemption in Financial Reporting Standard 8, paragraph 3(a) and have not disclosed transactions or balances with Group entities that have been eliminated on consolidation.

j) ***Turnover***

Turnover comprises income from television rights, gate receipts, merchandising royalties, sponsorships and other commercial activities, exclusive of value added tax.

Notes (continued)

k) ***Pension costs***
The Group pays contributions to personal money purchase schemes for eligible employees and accounts for the amount due in each year as a cost to the profit and loss account.

l) ***Taxation***
The charge for taxation is based on the profit or loss 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 in FRS 19.

2. Turnover

Turnover derives from the Group's principal activities and arises wholly within the UK.

3. (Loss)/profit on ordinary activities before taxation

This is stated after charging/(crediting):

	2003	2002
	£000	£000
Auditors' remuneration:		
Audit fees	**12**	12
Other fees paid to the auditors and their associates	**7**	2
Amortisation of player registrations (Note 13)	**1,451**	1,224
Depreciation (Note 14)	**425**	362
Release of grants	**(41)**	(40)
Profit on disposal of player registrations and manager (Note 4)	**(1,299)**	(4,271)
Profit on disposal of tangible fixed assets (Note 5)	**(1,274)**	(3)
Operating lease rentals	**42**	34

Auditors remuneration for the audit of the parent company is £10,000 (2002: £10,000).

4. Profit on sale of intangible fixed assets

The net profit on disposal of intangible fixed assets of £1,299,000 *(2002: £4,271,000)* relates principally to the profit on sale of Sean Gregan to West Bromwich Albion and the cancellation of Iain Anderson's registration. The net profit on the sale of intangible fixed assets is taxable at the standard rate of 30% *(2002: 30%)*.

In the prior year the net profit on disposal of intangible fixed assets of £4,271,000 related principally to the profit on sale of Jonathan Macken to Manchester City, the loss on sale of Steve Robinson to Luton Town and compensation received when the former team manager, David Moyes, joined Everton. The net profit on the disposal of player registrations is taxable at the standard rate of 30%.

5. Profit on sale of tangible fixed assets

On 18 March 2003, the Company entered into an arrangement with the National Football Museum (NFM) to grant a 60 year rent free lease on part of the stadium for a gross consideration of £1,975,000. In addition, the Company agreed to cancel the existing rental agreement, waive the £100,000 outstanding loan and rent arrears of £89,000 and to transfer to NFM (in conjunction with The Chase Creative Consultants Limited) the business and assets of Extra Time Limited.

After allocating a net book value of £500,000 to the disposal, the transaction resulted in a profit before tax of £1,274,000. This transaction is subject to UK Capital Gains Tax.

6. Staff numbers and costs

Staff costs, including directors, comprised:

	2003	2002
	£000	£000
Wages and salaries	**5,283**	5,331
Social security costs	**570**	562
Other pension costs	**39**	69
	5,892	5,962

During the year, following the collapse of the television rights agreement between The Football League and ITV Digital, the Board undertook a restructuring of the business. As a result of this reorganisation, exceptional staff costs, principally redundancies, of £576,000 (not included above) were incurred.

Notes (continued)

6. Staff numbers and costs (continued)

The average number of persons employed by the Group, including directors, was as follows:

	2003 Number	2002 Number
Players, managerial and training staff	80	80
Sales, administration and ancillary staff	19	24
	99	104

In addition to the above, the Group employed an average of 202 *(2002: 212)* match-day staff during the year.

7. Directors' emoluments

	2003 £000	2002 £000
Emoluments payable to directors	135	195
Fees payable to related parties	8	6
Pension contributions	11	14
Compensation for the loss of office	97	7
	251	222

At the year end, one director *(2002: two)* is accruing retirement benefits under a personal money purchase pension scheme to which the Company makes contributions.

Director's fees in respect of D Shaw are paid to Ribble Valley Shelving Limited.

8. Other interest receivable and similar income

	2003 £000	2002 £000
On bank deposits	38	41

9. Interest payable and similar charges

	2003 £000	2002 £000
On bank loans and overdrafts	100	140
On all other loans	-	1
On hire purchase contracts	36	37
	136	178

10. Taxation

	2003 £000	2002 £000
Taxation on the profit for the year		
Current year tax charge at 30%	-	-
Movement on deferred taxation - current year	64	(40)
- prior year	137	-
	201	(40)

Notes (continued)

10. Taxation (continued)

	2003 **£000**	2002 £000
(Loss)/profit on ordinary activities before taxation	**(1,991)**	4,405
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% *(2002: 30%)*	**(597)**	1,322
Effects of:		
Relief for losses brought forward	**-**	(1,314)
Expenses not deductible for tax purposes	**9**	-
Difference between depreciation and capital allowances for the period	**129**	(6)
Trading losses carried forward	**641**	-
Difference between capital gain and profit on disposal of fixed assets	**(182)**	
Other	**-**	(2)
Current tax charge for the period	**-**	-

The corporation tax credit for the year is lower than expected due to tax losses being carried forward. These losses have not been recognised as a deferred tax asset (see note 21).

11. (Loss)/Earnings per share

The calculation of (loss)/earnings per share is based on a loss of £1,790,000 *(2002: £4,365,000 profit)* and on ordinary shares of 3,295,679 *(2002: 3,295,679)* being the weighted average number of shares in issue during the year.

12. Company result for the financial year

Preston North End plc has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The profit for the financial year as dealt with in the accounts of the Company is £1,136,000 *(2002: loss £14,000).*

13. Intangible fixed assets

Group	**Player registrations £000**
Cost	
At 1 July 2002	5,192
Additions	1,303
Disposals	(1,365)
At 30 June 2003	5,130
Amortisation	
At 1 July 2001	2,265
Charge for the year	1,451
On disposals	(1,053)
At 30 June 2003	2,663
Net book value	
At 30 June 2003	**2,467**
At 30 June 2002	2,927

Notes (continued)

14. Tangible fixed assets

Group and company	*Freehold* buildings £000	Long leasehold land and buildings £000	*Plant and* Equipment £000	*Total* £000
Cost or valuation				
At 1 July 2002	46	9,019	4,718	13,783
Additions	-	258	109	367
Disposals	-	(550)	-	(550)
At 30 June 2003	46	8,727	4,827	13,600
Accumulated depreciation				
At 1 July 2002	3	619	1,067	1,689
Charge for year	1	201	223	425
Disposals	-	(50)	-	(50)
At 30 June 2003	4	770	1,290	2,064
Net book value				
At 30 June 2003	**42**	**7,957**	**3,537**	**11,536**
At 30 June 2002	43	8,400	3,651	12,094
Historical cost at 30 June 2003				
Historical cost	*46*	7,625	4,827	12,498
Accumulated depreciation	(4)	(644)	(1,290)	(1,938)
Net historical cost	42	6,981	3,537	10,560

The leasehold land and buildings are occupied on a 125 year lease. Included in long leasehold land and buildings are assets at a book value of £1,221,000 *(2002: £1,249,000)*, which were valued by an external valuer on a depreciated replacement cost basis in May 1995.

In June 2001 the leasehold land and buildings were valued by an external valuer, Dunlop Heywood Lorenz, Consultant Surveyors, on a depreciated replacement cost basis at £13,570,000. This valuation has not been incorporated in the financial statements.

Included in the total net book value of long leasehold land and buildings of the Group and Company is £702,000 *(2002: £724,000)* in respect of assets held under hire purchase contracts. Depreciation charged for the year on these assets was £22,000 *(2002: £14,000)*.

15. Investments

	Company Group undertakings £000	Shares in Joint Venture £000	Total £000
Cost and net book value			
At 1 July 2002	289	42	331
Disposal	-	(42)	(42)
At 30 June 2003	289	-	289

The principal operating subsidiary undertaking is Preston North End Football Club, a professional Football League Club. The Company owns 100% of the ordinary share capital.

Notes (continued)

16. Investment in joint venture

The Group had a joint venture with The Chase Creative Consultants Limited to operate the retail outlet at The National Football Museum. The investment of the Group in the joint venture is as noted below:

	2003 £000	2002 £000
Share of net liabilities at beginning of year	**(28)**	(24)
Share of retained losses	**-**	(4)
Disposal	**28**	-
Share of net liabilities at end of year	**-**	(28)
Loans to joint venture at end of year	**-**	42
Total fixed asset investment	**-**	14

As part of the agreement with The National Football Museum *(note 5)* the business and assets of Extra Time were transferred to NFM.

17. Stocks

	Group and Company	
	2003 £000	2002 £000
Consumables	**52**	38

18. Debtors

	Group		Company	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Trade debtors	**319**	223	**319**	223
Amounts owed by subsidiary undertakings	**-**	-	**8,831**	7,136
Other debtors	**1,223**	2,532	**47**	-
Prepayments and accrued income	**58**	115	**53**	10
	1,600	2,870	**9,250**	7,369

Amounts owed by subsidiary undertakings are repayable in more than one year.

19. Creditors: amounts falling due within one year

	Group		Company	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Bank loans and overdrafts	**278**	278	**278**	278
Football Foundation loans	**108**	150	**108**	150
Obligations under hire purchase contracts	**146**	171	**146**	171
Trade creditors	**260**	194	**260**	194
Other taxation and social security	**517**	470	**47**	19
Other creditors	**8**	693	**8**	9
Accruals and deferred income	**2,171**	1,743	**2,171**	1,751
	3,488	3,699	**3,018**	2,572

Notes (continued)

20. Creditors: amounts falling due after more than one year

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Bank loans	**1,528**	1,805	**1,528**	1,805
Football Foundation loans	**25**	133	**25**	133
Obligations under hire purchase contracts (within five years)	**345**	457	**345**	457
Accruals and deferred income	**2,303**	2,328	**2,303**	2,328
	4,201	4,723	**4,201**	4,723

Bank loans

The bank loans and overdrafts of the Group and Company are secured by a first legal mortgage over the football stadium at Deepdale, Preston and a debenture over the Group's fixed and floating assets. Included within bank loans are the following amounts which are repayable by instalments:

	2003	2002
	£000	£000
Instalments payable:		
Within one year	**278**	278
Between one and two years	**278**	278
Between two and five years	**834**	831
After five years	**416**	696
	1,806	2,083

The Group and Company has a bank loan of £1,806,000 *(2002: £2,083,000)*, repayable by January 2010. The loan is repayable in quarterly instalments of £69,444 (excluding interest) and attracts interest at 1.25% over the bank base rate.

Football Foundation loans

Football Foundation loans of £8,000 *(2002: £58,000)* and £125,000 *(2002: £225,000)* are interest free and repayable in monthly instalments of £4,167 and £8,333 respectively.

Accruals and deferred income

Accruals and deferred income include capital grants of £2,043,000 *(2002: £2,084,000)* which is to be released to the profit and loss account in more than five years.

21. Provisions for liabilities and charges

	Group and Company	
	2003	2002
	£000	£000
Deferred taxation		
At beginning of year	**1,057**	1,017
(Credit)/charge to the profit and loss account *(note 10)*	**(201)**	40
At end of year	**856**	1,057

The elements of deferred taxation are as follows:

	Group and Company	
	2003	2002
	£000	£000
Accelerated capital allowances	**856**	1,057

At 30 June 2003 the Group's subsidiary undertaking, Preston North End Football Club Limited, had tax losses carried forward of £2.5 million *(2002: £0.4 million)*. A deferred tax asset has not been recognised in respect of these losses due to the Company's forecast level of profitability.

Notes (continued)

22. *Financial instruments*

The Group's financial instruments at the year end comprised cash, bank borrowings, hire purchase finance and various non derivative financial instruments such as trade debtors and trade creditors. As permitted by Financial Reporting Standard 13 short term debtors and creditors have been excluded from the disclosures in this note.

The Group uses financial instruments to manage financial and commercial risk wherever it is appropriate to do so. An explanation of the Group's treasury policy can be found on page 4 of the Report of the Directors. The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk.

Interest rate risk
The Group finances its operations by a mixture of retained profits, bank borrowings and hire purchase arrangements.

The interest rate risk profile of the Group's financial liabilities is as follows:

	2003 Sterling £000	2002 Sterling £000
Financial liabilities:		
Fixed rate	**491**	628
Floating rate	**1,806**	2,083
No interest paid	**133**	283
	2,430	2,994
Fixed rate weighted average interest rate at 30 June	**6.5%**	6.5%

Interest on floating rate financial liabilities is based on the relevant bank base rate plus 1.25%.

The Group has no derivative financial instruments at 30 June 2003 *(2002: £nil)* and in the opinion of the Board the fair value of the Group's financial assets and liabilities is equal to book value.

Liquidity risk
Throughout the year the Group's policy has been to ensure the continuity of funding through loan and hire purchase funding. Short term flexibility is achieved by overdraft facilities. The maturity profile of financial liabilities is as follows:

	2003 £000	2002 £000
Due within one year	**532**	599
Due between one and two years	**458**	557
Due between two and five years	**1,024**	1,144
After five years	**416**	694
	2,430	2,994

23. Called up share capital

	Group and Company 2003 £000	2002 £000
Authorised		
8,000,000 *(2002: 8,000,000)* ordinary shares of £1 each	**8,000**	8,000
Allotted, issued and paid		
3,295,679 *(2002: 3,295,679)* ordinary shares of £1 each	**3,296**	3,296

Notes (continued)

24. Share premium and reserves

	Share premium account £000	Revaluation reserve £000	Profit and loss account £000
Group			
At 1 July 2002	7,051	998	(602)
Retained loss for year	-	-	(1,790)
Transfer	-	(22)	22
At 30 June 2003	7,051	976	(2,370)
Company			
At 1 July 2002	7,051	998	2,414
Retained profit for year	-	-	1,136
Transfer	-	(22)	22
At 30 June 2003	7,051	976	3,572

25. Reconciliation of movements in shareholders' funds

	2003 £000	2002 £000
(Loss)/profit for the financial year	(1,790)	4,365
Net (reduction)/addition to shareholders' funds	(1,790)	4,365
Opening shareholders' funds	10,743	6,378
Closing shareholders' funds	8,953	10,743

26. Reconciliation of operating loss to net cash flow from operating activities

Group	**2003 £000**	2002 £000
Operating (loss)/profit	**(4,466)**	272
Depreciation	**425**	362
Amortisation of player registrations	**1,451**	1,224
Release of grants	**(41)**	(40)
(Increase)/decrease in stocks	**(14)**	2
(Increase)/decrease in debtors	**(105)**	737
Increase/(decrease) in creditors	**549**	(132)
Net (cash outflow)/inflow from operating activities	**(2,201)**	2,425

Notes (continued)

27. *Analysis of cash flows for headings summarised in the cash flow statement*

Group	**2003**	2002
	£000	£000
Returns on investments and servicing of finance		
Interest received	**38**	41
Interest paid	**(100)**	(141)
Interest element of hire purchase payments	**(36)**	(37)
Net cash outflow from returns on investment and servicing of finance	**(98)**	(137)
Capital expenditure		
Payments to acquire tangible fixed assets	**(367)**	(1,891)
Payments to acquire intangible fixed assets	**(1,480)**	(2,609)
Receipts from sales of tangible fixed assets	**1,788**	3
Receipts from sales of intangible fixed assets	**2,486**	2,715
Capital grant received	**-**	1,085
Net cash inflow/(outflow) from capital expenditure	**2,427**	(697)
Acquisitions		
Investment in joint venture	**-**	(2)
Financing		
New loans	**-**	300
New hire purchase agreement	**-**	457
Repayment of loans	**(427)**	(563)
Capital element of hire purchase payments	**(137)**	(109)
Net cash (outflow)/inflow from financing	**(564)**	85

28. Reconciliation of net debt to the amounts shown in the balance sheet

Group	At 1 July 2002	Cash flow	Non cash movement	**At 30 June 2003**
	£000	£000	£000	**£000**
Cash at bank and in hand	2,279	(436)	-	**1,843**
Debt due within 1 year	(428)	427	(385)	**(386)**
Debt due after 1 year	(1,938)	-	385	**(1,553)**
Hire purchase	(628)	137	-	**(491)**
	(2,994)	564	-	**(2,430)**
Net	(715)	128	-	**(587)**

29. Leasing commitments

The Group has annual commitments under operating leases in respect of plant and equipment expiring within three years *amounting to £18,000 (2002: £34,000).*

30. Related party disclosures

Friends of Preston North End Limited (FPNE)

FPNE own 26.13% of the ordinary share capital of the Company.

Derek Shaw and Steve Jackson are Directors of FPNE. During the year, FPNE acquired the former Legends nightclub and *snooker club situated at Deepdale, Preston.*

Preston North End plc has entered into a lease agreement with FPNE to utilise the former Legends building as the Club retail outlet and offices. During the year Preston North End plc made payments amounting to £17,500.

Directors

Chairman
Derek Shaw **aged 46**

Derek Shaw is Chairman and owner of Ribble Valley Shelving Limited. He has been a Director of the Company since February 1994 and was appointed Deputy Chairman in 1997.

Steve T Jackson **aged 37**

Steve Jackson is the founding director of New Reg Limited, a UK leader in cherished registration plates, and a number of internet based businesses, including UKIP, a major internet domain house.

Simon M Beard **aged 39**

Simon Beard joined the Company in December 2001 as Finance Director. Prior to this he has been Finance Director of Snackhouse plc and Morris Group plc. Simon qualified as a Chartered Accountant in 1989 having trained with KPMG.

David W Taylor **aged 54**

David Taylor, Chairman of DTP Limited, is currently a Director of, and advisor to, a number of quoted and unquoted companies. Previous roles include Chief Executive of Enterprise plc, Chief Executive of English Partnerships and Managing Director of AMEC Developments Limited.

Advisors

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