Middlesbrough Football & Athletic Company (1986) Limited

Annual report

for the year ended 31 July 1998

Registered no: 1947851

Middlesbrough Football & Athletic Company (1986) Limited

Annual report
for the year ended 31 July 1998

Middlesbrough Football & Athletic Company (1986) Limited

Directors and advisers

Executive directors

S Gibson
G L Cooke

Secretary and registered office

A W Bage FCA
Cellnet Riverside Stadium
Middlesbrough
TS3 6RS

Solicitors

Dickinson Dees
Eversheds

Bankers

Barclays Bank plc

Registered auditors

PricewaterhouseCoopers

Middlesbrough Football & Athletic Company (1986) Limited

Directors' report for the year ended 31 July 1998

The directors present their report and the audited financial statements for the year ended 31 July 1998.

Principal activity

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

Review of business

The directors consider the company's trading results for the year ended 31 July 1998 and the year end financial position to be satisfactory having taken into consideration the accounting policy adopted for transfer fees and signing on fees together with the company's ability to raise funds through its principal activity.

Dividends

The directors do not recommend the payment of a dividend (1997: £Nil).

Post balance sheet events

Subsequent to the year end the company has entered into agreements worth approximately £6.3 million for the acquisition of and £7.3 million for the sale of players.

Since 31 July 1998 the company has also incurred further expenditure for the development of its stadium and training facilities amounting to £2.4 million.

Directors

The directors of the company at 31 July 1998, both of whom have been directors for the whole of the year ending on that date, are listed below.

S Gibson (Chairman)
G L Cooke

K Lamb who was a director of the company at 31 July 1997 resigned as such on 1 August 1997.

Directors' interests in shares of the company and other group companies

None of the directors of the company have any interest in the shares of the company.

The interests of the directors in the shares of other group companies were:

	1 August 1997 and 31 July 1998
The Gibson O'Neill Company Limited – ordinary shares £1	
S Gibson	18,750

Other than as shown above no director had any interest in the shares of other group companies at any time during the year ended 31 July 1998.

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that 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.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 July 1998. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Year 2000

The directors have considered the expected and possible impacts on the business of the year 2000 issue and have considered in particular the impact on the amounts and disclosures in the financial statements. We are satisfied, based on our evaluation, that the annual report properly reflects these impacts. We have drawn up plans to adequately respond to the issues identified in our analysis and we consider that our plans are appropriate and realistic.

We are committed to implementing these plans but recognise that significant uncertainty continues to exist regarding the year 2000 issue. We will, therefore, continue to keep this matter under review.

The costs associated with addressing this issue are not considered to be significant.

Middlesbrough Football & Athletic Company (1986) Limited

Charitable donations

Donations made by the company during the year for charitable purposes amounted to £17,000 (1997: £11,500).

Auditors

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998 following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers as auditors. A resolution to reappoint PricewaterhouseCoopers as auditors to the company will be proposed at the annual general meeting.

By order of the board

AW Bage

A W Bage FCA
Company secretary

20 May 1999

Report of the auditors to the members of Middlesbrough Football & Athletic Company (1986) Limited

We have audited the financial statements on pages 6 to 20, which have been prepared in accordance with the historical cost convention and the accounting policies set out on pages 9 to 11.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 July 1998 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
Middlesbrough

20 May 1999

Profit and loss account for the year ended 31 July 1998

	Notes	1998 £'000	1997 (as restated) £'000
Turnover	2	**18,685**	22,502
Cost of sales		**(18,943)**	(18,844)
Gross (loss)/profit		**(258)**	3,658
Administrative expenses		**(2,664)**	(2,498)
Other operating income	5	**139**	125
Operating (loss)/profit before transfer fees and similar receivables/(payables)		**(2,783)**	1,285
Net transfer fees and similar receivables/(payables)		**3,372**	(7,296)
Operating profit/(loss) after transfer fees and similar receivables/(payables)		**589**	(6,011)
Profit on disposal of assets held for resale	6	**-**	469
Profit/(loss) on ordinary activities before interest		**589**	(5,542)
Interest payable and similar charges	7	**(2,131)**	(1,557)
Loss on ordinary activities before taxation	8	**(1,542)**	(7,099)
Tax on loss on ordinary activities	9	**383**	1,689
Loss for the financial year	19	**(1,159)**	(5,410)

All of the company's operations are continuing.

The company has no recognised gains or losses other than those included in the losses above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the loss for the financial year stated above, and their historical cost equivalents.

Middlesbrough Football & Athletic Company (1986) Limited

Balance sheet
at 31 July 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	10	**24,629**	15,496
Current assets			
Stocks	12	**524**	245
Debtors	13	**3,386**	2,990
Cash at bank and in hand		**9**	9
		3,919	3,244
Creditors: amounts falling due within one year	14	**(34,927)**	(24,762)
Net current liabilities		**(31,008)**	(21,518)
Total assets less current liabilities		**(6,379)**	(6,022)
Creditors: amounts falling due after more than one year	15	**14,666**	14,075
Accruals and deferred income	16	**2,715**	2,504
Capital and reserves			
Called-up share capital	18	**1,056**	1,056
Profit and loss account	19	**(24,816)**	(23,657)
Equity shareholders' deficit	20	**(23,760)**	(22,601)
		(6,379)	(6,022)

The financial statements on pages 6 to 20 were approved by the board of directors on 20 May 1999 and were signed on its behalf by:

Director

Middlesbrough Football & Athletic Company (1986) Limited

Cash flow statement for the year ended 31 July 1998

	Notes	1998 £'000	1997 £'000
Net cash flow from continuing operating Activities	21	4,584	1,822
Returns on investments and servicing of finance			
Interest paid		(2,233)	(1,345)
Interest paid on finance leases		(22)	(15)
		(2,255)	(1,360)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(9,700)	(3,097)
Sale of tangible fixed assets		36	12
Sale of assets held for resale		-	922
		(9,664)	(2,163)
Net cash flow before financing		(7,335)	(1,701)
Financing			
Issue of ordinary share capital		-	231
Repayment of principal on finance leases		(413)	(63)
Loans received		6,500	2,620
Loans repaid		(952)	(1,544)
Grants received		350	-
		5,485	1,244
Decrease in cash	22	(1,850)	(457)

Notes to the financial statements for the year ended 31 July 1998

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

(a) Basis of accounting

The financial statements are prepared in accordance with the historical cost convention and on a going concern basis.

The company meets its day to day working capital requirements through overdraft facilities which are repayable on demand. The validity of the going concern basis depends upon the company's ability to operate within agreed working capital facilities. The directors consider that current and future financing facilities, together with the company's ability to raise additional funds through its principal activity, will be sufficient to meet the company's requirements for the foreseeable future.

On this basis the directors consider it appropriate to prepare the financial statements on a going concern basis.

(b) Consolidated financial statements

The financial statements contain information about Middlesbrough Football & Athletic Company (1986) Limited as an individual company and do not contain financial information about the company as the parent of a group.

The accounts of MFC Promotions Limited, a subsidiary, have not been consolidated with those of the company in accordance with Section 229(2) of the Companies Act 1985, as the directors consider that the amounts concerned are not material.

(c) Reclassification of expenses

The 1997 profit and loss account has been restated to reclassify certain items of expenditure within cost of sales and operating expenses.

Administrative expenses and net transfer fees and similar payables in 1997 included £1,575,000 relating to player employment costs and stadium expenses. The directors consider that the inclusion of these costs within operating expenses is inappropriate. In order to give a fairer presentation of the company's performance, these costs have been included in cost of sales.

(d) **Tangible fixed assets**

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition. The cost of leasehold property includes interest paid on funds specifically taken out to finance assets in the course of construction.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values on a straight line basis, over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Freehold buildings	2
Leasehold land and buildings	2 - 7.5
Motor vehicles	25
Fixtures, fittings, plant and machinery	7.5 - 20

Freehold land is not depreciated.

(e) **Finance and operating leases**

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitment is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

(f) **Bank loans and overdrafts**

Bank loans and overdrafts are stated after adjusting for uncleared banking items.

(g) **Stocks**

Stocks are stated at the lower of cost and net realisable value. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation. Provision is made where necessary for obsolete, slow moving and defective stocks.

(h) **Grants**

Grants that relate to specific projects are treated as deferred income which is then credited to the profit and loss account over the related project's useful life. Other grants are credited to the profit and loss account when received.

(i) Foreign currencies

Transactions in foreign currencies are translated at the rate ruling at the date of the transaction except where the rate of exchange is fixed by a relevant matching forward exchange contract. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All exchange differences are taken to the profit and loss account in the year in which they arise.

(j) Turnover

Turnover, which excludes value added tax, represents the invoiced value of goods and services supplied.

(k) Deferred taxation

Provision is made for deferred taxation using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

(l) Transfer fees and signing on fees

Transfer fees and similar receivables/payables are credited or charged to the profit and loss account in the period in which the transaction takes place. These amounts are shown separately in the profit and loss account as the directors consider there is no other appropriate format heading. No amount is included in the balance sheet in respect of the value of players in the employment of the club at the year end. Signing on fees are charged to the profit and loss account in the period in which they are payable.

(m) Promotional rights

Promotional rights are charged to the profit and loss account in the period in which they are payable.

(n) Sponsorship income

Sponsorship income is recognised in the profit and loss account of the period in respect of which it is received. If it does not relate to a specific period it is recognised in the profit and loss account of the period in which it is receivable.

2 Turnover

Turnover consists entirely of sales made in the United Kingdom.

3 Directors' emoluments

	1998 £	1997 £
Aggregate emoluments	-	92,918

4 Employee information

The average monthly number of persons (including executive directors) employed by the company during the year was:

	1998 Number	1997 Number
Playing staff	51	40
Other staff	115	120
	166	160

	1998 £'000	1997 £'000
Staff costs (for the above persons):		
Wages and salaries	10,299	10,333
Social security costs	1,116	999
	11,415	11,332

5 Other operating income

	1998 £'000	1997 £'000
Release of deferred grant income	139	125

6 Exceptional item

The profit on disposal of assets held for resale during the year ended 31 July 1997 arose from the sale of Ayresome Park.

7 Interest payable and similar charges

	1998 £'000	1997 £'000
On bank loans and overdrafts	1,211	1,110
On other loans	40	29
On finance leases	22	15
Other interest	858	403
	2,131	1,557

8 Loss on ordinary activities before taxation

	1998 £'000	1997 £'000
Loss on ordinary activities before taxation is stated after charging:		
Depreciation charge for the year:		
Tangible owned fixed assets	563	460
Tangible fixed assets held under finance leases	211	194
Auditors' remuneration for:		
Audit services	16	13
Other services to the company	40	70
and after crediting:		
Exchange gains	3	27
Amortisation of deferred grant	139	125

9 Tax on loss on ordinary activities

	1998 £'000	1997 £'000
United Kingdom corporation tax at 31% (1997: 31%):		
Current	(450)	(1,560)
Under/(over) provision in respect of prior years	67	(129)
	(383)	(1,689)

The credit for the year arises from the surrender of tax losses to other group companies.

10 Tangible fixed assets

	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Motor vehicles £'000	Fixtures, fittings, plant and machinery £'000	Total £'000
Cost					
At 1 August 1997	2,265	13,696	66	760	16,787
Additions	4,132	5,296	70	445	9,943
Disposals	-	-	(51)	-	(51)
At 31 July 1998	**6,397**	**18,992**	**85**	**1,205**	**26,679**
Depreciation					
At 1 August 1997	2	1,046	19	224	1,291
Charge for the year	20	575	17	162	774
Disposals	-	-	(15)	-	(15)
At 31 July 1998	**22**	**1,621**	**21**	**386**	**2,050**
Net book value					
At 31 July 1998	**6,375**	**17,371**	**64**	**819**	**24,629**
Net book value					
At 31 July 1997	2,263	12,650	47	536	15,496

Accumulated interest capitalised included in the total cost above amounts to £290,000 (1997: £274,000).

The net book value of tangible fixed assets includes an amount of £3,003,000 (1997: £2,971,000) in respect of assets held under finance leases.

11 Investments

Interests in subsidiary undertakings

Name	Country of Incorporation	Description of shares held	Proportion of nominal value of shares held
MFC Promotions Limited	Isle of Man	Ordinary £1 shares	100%

The principal activity of MFC Promotions Limited is the acquisition and utilisation of the promotional rights of professional footballers.

12 Stocks

	1998 £'000	1997 £'000
Finished goods and goods for resale	**524**	245

13 Debtors

	1998 £'000	1997 £'000
Amounts falling due within one year		
Trade debtors	**1,114**	505
Transfer fees receivable	**140**	604
Other debtors (see note 30)	**1,739**	1,445
Prepayments and accrued income	**393**	436
	3,386	2,990

14 Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Bank loans and overdrafts (see note 15)	**8,420**	5,555
Other loans (see note 15)	**48**	210
Obligations under finance leases (see note 15)	**428**	374
Trade creditors	**3,468**	2,066
Transfer fees payable	**8,581**	5,443
Other taxation and social security payable	**1,731**	2,919
Other creditors	**360**	430
Deferred income	**9,654**	6,034
Accruals	**2,237**	1,731
	34,927	24,762

15 Creditors: amounts falling due after more than one year

	1998 £'000	1997 £'000
Bank loans	**8,976**	4,240
Other loans	**1,109**	1,180
Amounts due to parent undertaking (see note 30)	**2,000**	2,000
Obligations under finance leases	**2,581**	2,805
Transfer fees payable	-	3,850
	14,666	14,075

(a) Included in bank loans and overdrafts are amounts of £6,978,000 (1997: £5,120,000) which are secured by fixed and floating charges over the assets of the company and by guarantees given by Mr S Gibson and The Gibson O'Neill Company Limited.

(b) Included in bank loans and overdrafts are loans totalling £10,414,000 (1997: £4,664,000) which are secured by:

(i) fixed and floating charges over the Cellnet Riverside Stadium;
(ii) a fixed charge over certain freehold land and buildings; and
(iii) a floating charge over certain trading receipts of the company.

(c) Included in bank loans and overdrafts are loans of £771,000 (1997: £790,000) which are secured by first fixed and floating charges over certain freehold land and buildings.

(d) The amount due to parent undertaking has no fixed repayment date although the parent company has expressed its intention not to require repayment prior to 31 July 1999 (see note 30).

Bank loans and overdrafts and other loans

	1998 £'000	1997 £'000
Repayable as follows:		
In one year or less	**8,468**	5,765
Between one and two years	**1,525**	451
Between two and five years	**4,477**	1,356
Over five years	**4,083**	3,613
	18,553	11,185

Creditors repayable in five years or more

	1998 £'000	1997 £'000
2.375% above LIBOR, secured loan repayable by half yearly instalments of £212,000	**4,240**	4,664
1% above standard building society variable rate, secured loans repayable by monthly instalments	**771**	790
Unsecured brewery loan repayable by barrelage discount	**387**	417
2.5% above LIBOR, secured loan repayable by quarterly instalments	**3,000**	-
	8,398	5,871

Middlesbrough Football & Athletic Company (1986) Limited

Finance leases

The net finance lease obligations to which the company is committed are:

	1998 £'000	1997 £'000
In one year or less	**428**	374
Between one and two years	**428**	1,430
Between two and five years	**1,111**	-
In more than five years	**1,042**	1,375
	3,009	3,179

16 Accruals and deferred income

	£'000
Grants	
At 1 August 1997	2,504
Received in the year	350
Amortised in year	(139)
At 31 July 1998	**2,715**

17 Deferred taxation

The company has no potential liability to deferred taxation (1997: £Nil).

18 Called-up share capital

	1998 £'000	1997 £'000
Authorised		
2,000,000 (1997: 2,000,000) ordinary shares of £1 each	**2,000**	2,000
Allotted, called-up and fully paid		
1,056,000 (1997: 1,056,000) ordinary shares of £1 each	**1,056**	1,056

19 Profit and loss account

	£'000
At 1 August 1997	(23,657)
Loss for the financial year	(1,159)
At 31 July 1998	**(24,816)**

Middlesbrough Football & Athletic Company (1986) Limited

20 Reconciliation of movement in equity shareholders' deficit

	1998 £'000	1997 £'000
Opening equity shareholders' deficit	(22,601)	(17,422)
Shares issued during year	-	231
Loss for the financial year	(1,159)	(5,410)
Closing equity shareholders' deficit	(23,760)	(22,601)

21 Reconciliation of profit/(loss) on ordinary activities before interest to net cash flow from continuing operating activities

	1998 £'000	1997 £'000
Profit/(loss) on ordinary activities before interest	589	(5,542)
Depreciation of tangible fixed assets	774	654
Profit on disposal of assets held for resale	-	(469)
(Increase)/decrease in stocks	(279)	20
(Increase)/decrease in debtors	(13)	357
Increase in creditors	3,682	6,951
Amortisation of grant	(139)	(125)
Non-cash brewery loan repayment	(30)	(24)
Net cash flow from continuing operating activities	4,584	1,822

22 Reconciliation of net cash flow to movement in net debt

	1998 £'000	1997 £'000
Decrease in cash	(1,850)	(457)
Cash flow from movement in debt and lease financing	(5,135)	(1,013)
Change in debt resulting from cash flows	(6,985)	(1,470)
Non-cash brewery loan repayment	30	24
New finance leases	(243)	(2,930)
Conversion of medium term loan to finance leases	-	2,930
Movement in net debt in the year	(7,198)	(1,446)
Net debt at beginning of year	(16,355)	(14,909)
Net debt at end of year	(23,553)	(16,355)

23 Analysis of net debt

	At 1 August 1997 £'000	Cash flows £'000	Other non-cash changes £'000	**At 31 July 1998 £'000**
Net cash:				
Cash at bank and in hand	9	-	-	**9**
Bank overdrafts	(5,131)	(1,850)	-	**(6,981)**
	(5,122)	(1,850)	-	**(6,972)**
Debt due within one year	(634)	(883)	30	**(1,487)**
Debt due in more than one year	(7,420)	(4,665)	-	**(12,085)**
Finance leases	(3,179)	413	(243)	**(3,009)**
	(11,233)	(5,135)	(213)	**(16,581)**
Net debt	(16,355)	(6,985)	(213)	**(23,553)**
Analysed in balance sheet				
Cash at bank and in hand	9			**9**
Bank loans and overdrafts:				
Due within one year	(5,555)			**(8,420)**
Due in more than one year	(4,240)			**(8,976)**
Other loans:				
Due within one year	(210)			**(48)**
Due in more than one year	(3,180)			**(3,109)**
Finance leases:				
Due within one year	(374)			**(428)**
Due in more than one year	(2,805)			**(2,581)**
	(16,355)			**(23,553)**

24 Major non-cash transactions

During the year the company entered into finance lease arrangements with a capital value at inception of £243,000.

25 Post balance sheet events

Details of post balance sheet events are given in the directors' report.

26 Contingent liabilities

In the course of normal business the company enters into contracts that include clauses contingent upon future events. The directors have assessed such contracts and consider that all liabilities in relation to those contracts have been specifically provided for in these financial statements.

27 Capital commitments

	1998 **£'000**	1997 £'000
Capital expenditure that has been contracted for but that has not been provided for in the financial statements	**2,239**	-

28 Immediate and ultimate parent company

The directors regard The Gibson O'Neill Company Limited, a company registered in England and Wales, as the immediate and ultimate parent company due to its 75% holding of the equity share capital of the company. Copies of the parent company's consolidated financial statements may be obtained from the Company Secretary, Brignell Road, Riverside Park Industrial Estate, Middlesbrough, Cleveland, TS2 1PS.

29 Ultimate controlling party

The directors regard Mr S Gibson, Chairman of the company as the ultimate controlling party by virtue of his 75% holding in the shares of The Gibson O'Neill Company Limited, the ultimate parent company.

30 Related party transactions

An interest free loan of £2,000,000 from The Gibson O'Neill Company Limited is included within amounts due to parent undertaking. The directors of The Gibson O'Neill Company Limited have formally expressed their intention to convert this loan into an equity investment in the company. Accordingly the loan has been included within "Amounts owed to parent undertaking" falling due after more than one year in note 15.

Included within "Other debtors" disclosed in note 13 is an amount due from other group companies of £1,481,000 (1997: £1,098,000) in respect of group relief.

The company's profit and loss account includes net expenditure of £300,000 (1997: net expenditure of £635,000) in respect of transactions with MFC Promotions Limited.