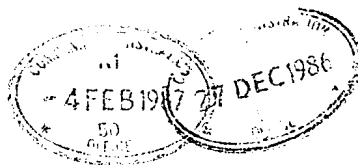


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THE READING FOOTBALL CLUB PLC

10.

REPORT and ACCOUNTS

30th JUNE 1986



THE READING FOOTBALL CLUB PLC

Company No. 530703

DIRECTORS:

Mr. R. G. Smee (Chairman)
Mr. M. J. Lewis (Managing Director/Secretary)
Mr. J. Campbell F.C.A.
Mr. C. M. Brooks

TEAM MANAGER:
Mr. I. Branfoot

BANKERS:
Messrs. Lloyds Bank Ltd., 24 Broad Street, Reading

SOLICITORS:

Messrs. Clifford-Turner, London.
Messrs. Brain & Brain, Reading.

AUDITORS:

Messrs. Coopers and Lybrand,
Reading.

REGISTERED OFFICE:

Elm Park, Norfolk Road, Reading.

NOTICE OF MEETING

THE READING FOOTBALL CLUB PLC

NOTICE IS HEREBY GIVEN that the eighty-eighth Annual General Meeting of the above Company will be held at Elm Park, Norfolk Road, Reading, Berkshire on Thursday, 9th October, 1986 at 7.00pm for the following purposes.

1. To receive and adopt the Directors' Report, Annual Statement of Accounts and the Auditors' Report.
- 2-3. To re-elect the following directors who retire in accordance with the Companies Articles of Association:
Mr. C. M. Brooks (Resolution No. 2)
Mr. J. Campbell (Resolution No. 3)
4. To re-appoint the Auditors.
5. To transact any other ordinary business of the Company.

BY ORDER OF THE BOARD

M. J. Lewis
Secretary

Registered Office: Elm Park
Norfolk Road
Reading, Berkshire.

Dated: 9th October, 1986

NOTE:

A member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote in his place. A proxy need not be a member of the Company. To be valid, the instrument appointing a proxy must be deposited at the Registered Office of the Company not less than 48 hours before the time for holding the Meeting.

CHAIRMAN'S STATEMENT

Dear Shareholder,

"I believe this year's all-round progress has arrested the general trend of decline of the club in recent years. A firm foundation has now been laid. We still have quite some way to go but I am confident that we now have the basis of a first class team both on and off the pitch which will ensure further progress and a successful future for the Club."

— was how I concluded my statement to you last year.

It is, therefore, with great pride that I reflect upon the success of last season. A pride that I believe the whole of the Town shared with us. During last year's memorable season we were not only presented with a beautiful antique silver salver by The Football League to commemorate our quite incredible feat of breaking the all time record for the longest sequence of wins at the commencement of a new season, an impressive pair of decanters for being voted third in the Fiat Team of the Year Award for 1985 — behind Everton & Manchester United(!), but in May were also presented with the magnificent Third Division Championship Trophy. A year for us to savour — especially when you consider the turmoil and changes that the club has experienced in its recent past. Last season was a tribute to Ian Branfoot and a smart group of disciplined young men as it was to Mike Lewis, his administration and commercial team.

Whilst on the one hand it was marvellous to enjoy our playing success, on the other your board has to deal with the ever increasing pressure of keeping our ship afloat in an ever increasingly choppy sea.

Our financial performance needs careful explanation. You will note from the table on the inside of the back page that our trading performance has improved markedly. However, you will see that whilst in previous years the full impact of our trading losses have, to varying extents, been offset by income from transfer fees; but last year we had net expenditure of £130,000 on players. Quite obviously this cannot be a trend to pursue, however, the achievements of last year have enabled us to forecast further improvement in our trading position due to the more professional approach, Second Division Football and changes made to our commercial activities. It should also be remembered that accounting policies for soccer as applied to the valuation of players requires us to write off 100% of the cost of each player in the accounting year they are purchased. For the accounting layman this means that our entire playing staff, for accounting purposes, is valued at Nil! Quite clearly this in practical terms is nonsense, however, you must always remember this fact and remember the playing squad remains a major asset in real terms although they do not appear as such in our Balance Sheet.

It is therefore our cash flow and realistic forecasts which dictate most of our more fundamental decisions.

You will note from an inspection of this year's accounts that we had much improved gate receipts due to our average gate rising to 6623 for home matches. However, it will also be noted that increased wages accounted for the majority of this increase. Sadly our commercial activities did not show commensurate improvement and changes have been made relating to this profit centre which are almost immediately enabling us to achieve our expectations. In terms of expenditure we shall now tread carefully for a while until we experience the effects of our new status.

As I warned in my statement to you last year we have been further burdened by the implementation of the Safety of Sports Grounds Act to the extent that we were three quarters of the way through a very difficult £200,000 building works programme at our financial year end. Whilst 75% of these costs are grant aided by the Football Grounds Improvement Trust the club has had to find the balance — amounting to approx. £30,000 during the last financial year.

I am pleased to record a marked improvement in crowd behaviour and a significantly reduced number of police arrests. We shall increase this trend by the construction of a police observation room that will shortly be monitoring the ground with the benefit of strategically positioned video cameras. Our progress towards official club membership only entrance to Elm Park will, we believe, further enhance crowd control. You may be surprised to be told that with inflation running at approx. 5% our police charges went up 28% which in practical terms means we need approx. 700 paying spectators each match just to pay the police! This we and football in general believe is excessive, however, we are in no position to do a great deal about it.

As for the introduction of new income centres for last year you will know the National Sports Pool was a flop and that ultimately we could not afford the new executive boxes until this summer. I am delighted to be able to tell you that all of our 12 boxes are fully let and our new Director, Mr. Colin Brooks, is heading up our 2000 member 1st Division Society which we hope will more than replace our hopes for NSP. Hopefully all shareholders will show interest enough to be a member as we are not yet fully subscribed.

During the year we have worked closely with our sponsors Courage who, along with our own performances, have not only helped raise significant sums of cash for us but also raised the national profile of our Club. With the name of Courage alongside us we are no longer one of the also ran little clubs — we are now carving out a niche for ourselves in the more serious echelons of soccer.

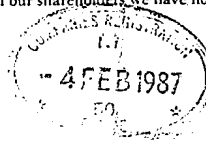
Last year was wonderful for us all — at least all of you who hold a genuine interest in the progress of Reading Football Club. However, we, like all but a handful of the top clubs, continue to make trading losses. We are clawing our way towards our break even target but it remains a difficult balancing act off such a restrictive capital base and limited commercial facilities.

Each year I like to draw attention to the enormous moral and financial assistance given by our box holders, Vice Presidents, various match sponsors and donors. All are valued relationships whether corporate or personal. My thanks go to you all.

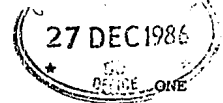
This year I am also able to draw attention to our supporters who bucked the national trend of declining numbers by increasing our gates by 90% — marvellous — I sincerely hope they stay with us whilst we find our feet in Division 2.

Viewing last year in summary, I can say "well done" to everyone associated with the Club — however this season is a whole new year, last year is gone, the immediate job at hand is to make sure our teams, both on and off the field, maintain the standards we have set ourselves by the results of last year. I am confident they shall; and have confidence that with the support of all our shareholders we have not yet reached the limits of our abilities.

R. G. SMEE
Chairman



JAN 1987



REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30th JUNE, 1986

1. The directors present herewith the audited accounts for the year ended 30 June 1986.

Review of Activities

2. The profit and loss account is set out on page 4.
The principal activity of the company is that of a professional Football League Club. Although the Club incurred a trading loss for the year of £30,857, much of which can be attributed to the cost of gaining promotion to the 2nd Division, the final result for the year of £161,471 includes transfer fees of £130,614 for the purchase of new players, which in accordance with the accounting policies of the Company have been written off through the profit and loss account.
The directors consider the financial position to be satisfactory and look forward to improved results in 1987 following promotion from the Third Division.

Market Value of Land and Buildings

3. In the opinion of the directors the market value of the freehold property for alternative uses is at least £1,400,000. In view of the specialised nature of these assets it is not considered appropriate to include the valuation in the accounts at the present time.

Dividends

4. The directors do not recommend payment of a dividend for the year ended 30 June 1986.

Directors

5. The directors of the company at 30 June 1986 who, unless otherwise stated, were directors throughout the year ended on that date, were as follows:

R G Smee	(Chairman)
M J Lewis	(Managing Director)
J Campbell	
B Roach	
C M Brooks	(Appointed 23 May 1986)

Mr B Roach resigned on 28th August 1986.

Mr J H Brooks and Mr R Tranter resigned on 31 October 1985.

In accordance with the Articles of Association Mr C M Brooks retires and, being eligible, offers himself for re-election and Mr J Campbell retires by rotation and, being eligible, offers himself for re-election.

Changes in Fixed Assets

6. The movements in fixed assets during the year are set out in note 8 on page 10.

Directors' Interests in Shares of the Company

7. According to the register required to be kept under the provisions of Section 325 of the Companies Act 1985, the interests of the directors holding office at 30 June 1986 in the shares of the company, were as follows:-

	Ordinary shares of 50p each	
	30 June 1986	30 June 1985
R G Smee	5,500	4,000
M J Lewis	50	50
J Campbell	106	106
B Roach	101	101
C M Brooks	—	—

Close Company Provisions

8. As far as the directors are aware, the close company provisions of the Income and Corporation Taxes Act 1970, as amended, do not apply to the company. There has been no change in this respect since the end of the financial year.

Auditors

9. In accordance with Section 384 of the Companies Act 1985 a resolution to reappoint Coopers & Lybrand as auditors will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD

M. J. Lewis

Secretary

9th September, 1986

TWO

REPORT OF THE AUDITORS TO THE MEMBERS OF READING FOOTBALL CLUB PLC

1. We have audited the accounts on pages 4 to 12 in accordance with approved Auditing Standards.
2. As stated in note 2 on page 8 the company is dependent on the continued support of its bankers.
3. In our opinion the accounts give a true and fair view of the state of the company's affairs at 30 June 1986 and of its loss and source and application of funds for the year then ended and comply with the Companies Act 1985.

COOPERS & LYBRAND
Chartered Accountants

*Reading: 9th September, 1986

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30th JUNE, 1986

	Notes	1986 £	1985 £
TURNOVER	3a	761,540	490,628
PLAYERS AND STAFF COSTS		(507,760)	(340,427)
MATCH, GROUND AND ADMINISTRATIVE EXPENSES		(309,168)	(250,973)
OTHER OPERATING INCOME: DONATIONS		30,058	21,810
INTEREST PAYABLE	4	<u>(5,527)</u>	<u>(9,518)</u>
LOSS ON TRADING		(30,857)	(88,432)
TRANSFER FEES (NET)	3b	<u>(130,614)</u>	<u>93,352</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION	4	(161,471)	4,870
EXTRAORDINARY INCOME AFTER TAXATION	7	<u>14,471</u>	<u>81,840</u>
(LOSS)/PROFIT FOR THE YEAR		<u>£(147,000)</u>	<u>£86,710</u>

ACCUMULATED LOSSES

	1986 £	1985 £
RETAINED PROFITS 1 JULY 1985	10,865	(75,845)
(LOSS)/PROFIT FOR THE YEAR	<u>(147,000)</u>	<u>86,710</u>
ACCUMULATED LOSSES AT 30 JUNE 1986	<u>£(136,135)</u>	<u>£10,865</u>

The notes on pages 7 to 12 form part of these accounts.

Auditors' report page 3.

BALANCE SHEET AS AT 30th JUNE, 1986

1986	1985
£	£
761,540	490,628
(507,760)	(340,427)
309,168	(250,975)
30,058	21,810
(5,527)	(9,518)

(30,857)	(88,482)
130,614	93,452

161,471	4,870
14,471	81,840
147,000	£86,710

1986	1985
£	£
10,865	(75,845)
147,000	86,710
136,135	£10,865

	Notes	1986	1985
		£	£
FIXED ASSETS			
Tangible assets	8	110,477	93,496
CURRENT ASSETS			
Stocks	9	1,870	2,290
Debtors	10	51,027	95,590
Cash at bank and in hand		391	59
		53,348	97,939
CREDITORS:			
amounts falling due within one year	11	274,960	155,570
NET CURRENT LIABILITIES		(221,612)	(57,631)
Total assets less current liabilities		£(111,135)	£35,865
CAPITAL AND RESERVES			
Called up share capital	12	25,000	25,000
Profit and loss account		(136,135)	10,865
		£(111,135)	£35,865

R. G. SMEE

J. CAMPBELL

Directors

These accounts were approved by the Board on 3rd September, 1986.

The notes on pages 7 to 12 form part of these accounts.

Auditors' report page 3.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED 30th JUNE, 1986

	1986	1985
	£	£
SOURCE OF FUNDS		
Net (loss)/profit before taxation and extraordinary item	(161,471)	4,870
Adjustment for items not involving the movement of funds:		
Depreciation	8,567	8,902
Loss on sale of fixed assets	408	1,547
FUNDS (CONSUMED)/GENERATED BY OPERATIONS	(152,496)	15,319
OTHER SOURCES OF FUNDS		
Sale of fixed assets	30	106,476
APPLICATION OF FUNDS		
Purchase of fixed assets	(25,986)	(23,377)
(Decrease)/increase in working capital	<u>£(178,452)</u>	<u>£98,418</u>
INCREASE/(DECREASE) IN WORKING CAPITAL		
(Decrease)/increase in stock	(420)	860
(Decrease)/increase in debtors and prepayments	(44,503)	74,701
(Increase)/decrease in creditors and accruals	(70,496)	(13,387)
MOVEMENT IN NET LIQUID FUNDS:		
(Decrease)/increase in bank balance and cash funds	<u>(63,033)</u>	<u>36,244</u>
	<u>£(178,452)</u>	<u>£98,418</u>

Auditors' report page 3.

Principal Accounting Policies

1985	1.	The accounts have been prepared under the historical cost convention. A summary of the more important accounting policies is set out below.		
£	(a)	Fixed assets		
4,870		Depreciation is calculated so as to write off the cost of fixed assets on a reducing balance basis over the expected useful economic lives of the assets concerned. The freehold property is written off on a straight line basis. The principal annual rates used for this purpose, which are consistent with those adopted last year, are as follows:-		
			% of written down value	% of cost
8,902		Equipment	10	—
1,547		Floodlighting equipment	10	—
		Motor vehicles	25	—
		Furniture	10	—
15,319		Freehold buildings	—	2
		Executive boxes	—	20
106,476	(b)	Stocks		
		Stocks are valued at net realisable value which is less than cost.		
(23,377)	(c)	Turnover		
£98,418		Turnover, which excludes value added tax, represents income arising from all activities of the club excluding fees receivable from other football clubs on the transfer of players' registrations.		
860	(d)	Transfer fees		
74,701		Fees payable to and receivable from other football clubs on the transfer of players' registrations are dealt with through the profit and loss account in the period in which the transfer takes place.		
(13,387)	(e)	Taxation		
36,244		Taxation is based on the results for the year as adjusted for disallowable items, and for timing differences to the extent that they are unlikely to result in an actual liability in the foreseeable future. The tax effect of other timing differences as reduced by the tax benefit of any accumulated losses is treated as a deferred tax liability. Where accumulated losses exceed the liability to deferred taxation the potential deferred tax asset is not recognised in the accounts.		
£98,418				

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30th JUNE, 1986 (Continued)

Going Concern Basis

2. The accounts have been prepared on a going concern basis which assumes the continued support of the company's bankers. Based upon projections of income and expenditure and the substantial security which the company can provide to secure borrowings, principally the ground which is conservatively worth £1,300,000 above its book value, the directors are confident that the club will have sufficient resources to sustain its activities for the foreseeable future. The directors therefore consider a going concern basis of accounting appropriate.

Turnover and Transfer Fees

3. The contributions of the various activities of the club to turnover are set out below:-

(a) Turnover	1986 £	1985 £
Match receipts	477,104	282,238
Other income	284,436	208,390
	<u>£761,540</u>	<u>£490,628</u>
(b) Transfer fees	1986 £	1985 £
Transfer fees receivable	1,499	138,802
Transfer fees paid	(132,113)	(45,450)
	<u>£(130,614)</u>	<u>£93,352</u>

(Loss)/Profit on Ordinary Activities

4. (Loss)/profit on ordinary activities is stated after charging:-

	1986 £	1985 £
Auditors' remuneration	3,300	3,000
Depreciation of tangible fixed assets	8,567	8,902
Directors' emoluments including pension contributions:		
For management services	23,577	21,820
Loss on sales of fixed assets	408	1,547

Interest payable and similar charges arose on sums wholly repayable within 5 years.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30th JUNE, 1986 (Continued)

Tangible fixed assets

8.

	Freehold land and buildings	Fixtures, fittings & equipment	Floodlighting equipment	Motor vehicles	Total
COST	£	£	£	£	£
At 1 July 1985	81,860	13,448	22,695	15,366	133,369
Additions	25,986	—	—	—	25,986
Disposals	—	—	—	(2,461)	(2,461)
At 30 June 1986	107,846	13,448	22,695	12,905	156,894
DEPRECIATION					
At 1 July 1985	6,488	6,818	18,489	8,078	39,873
Disposals	—	—	—	(2,023)	(2,023)
Charge for year	5,771	663	421	1,712	8,567
At 30 June 1986	12,259	7,481	18,910	7,767	46,417
NET BOOK VALUE					
At 30 June 1986	<u>£95,587</u>	<u>£5,967</u>	<u>£3,785</u>	<u>£5,138</u>	<u>£110,477</u>
NET BOOK VALUE					
At 30 June 1985	<u>£75,372</u>	<u>£6,630</u>	<u>£4,206</u>	<u>£7,288</u>	<u>£93,496</u>

Stocks

9.

	1986	1985
	£	£
Outfits and equipment	<u>£1,870</u>	<u>£2,290</u>

Debtors

10. Amounts falling due within one year:-

	1986	1985
	£	£
Trade debtors	11,309	66,542
Other debtors	34,987	22,487
Prepayments and accrued income	291	2,061
	<u>46,587</u>	<u>91,090</u>
 Amounts falling due after one year:		
Other debtors	<u>4,500</u>	<u>4,500</u>
	<u>£51,087</u>	<u>£95,590</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30th JUNE, 1986 (Continued)

Creditors: amounts falling due within one year

11.

Motor vehicles	Total
£	£
15,366	133,369
—	25,986
(2,461)	(2,461)
12,905	156,894
8,078	39,873
(2,023)	(2,023)
1,712	8,567
7,767	46,417
£5,138	£110,477

£7,288	£93,496
--------	---------

1985	£
£2,290	

Bank loans and overdrafts (see (a) below)
 Payments received on account
 Trade creditors
 Other creditors including taxation and social security (see (b) below)

1986	1985
£	£
130,130	66,765
59,700	15,413
23,416	24,740
61,714	48,652
£274,960	£155,570

(a) The bank loans and overdraft are secured by a first charge on the freehold property.

(b) Other creditors including taxation and social security is made up as follows:-

United Kingdom corporation tax
 Social security and other taxes
 Other creditors and accruals

1986	1985
£	£
—	14,471
17,526	9,817
44,188	24,364
£61,714	£48,652

Called up share capital

12.

1985	£
66,542	
22,487	
2,061	
91,090	
4,500	
£95,590	

Authorised:
 Value
 Number
 Allotted, called up and fully paid:
 Value
 Number

Ordinary shares of 50p each

1986	1985
£50,000	£50,000
100,000	100,000
£25,000	£25,000
50,000	50,000

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30th JUNE, 1986 (Continued)

1986

Deferred Taxation

13. The potential deferred tax asset is at 29% (1985 - 30%) in respect of the following:-

	1986	1985
	£	£
Accelerated capital allowances	15,887	2,802
Trading losses carried forward	(274,977)	(212,330)
	<u>£(259,090)</u>	<u>£(209,528)</u>

In accordance with the accounting policy of the company the potential asset is not recognised in the accounts.

Capital Expenditure Commitments

14. At 30 June 1986 the company was committed to capital expenditure of £22,500 (1985 £Nil).

Auditors' report page 3.

ued)

6	1985
	£
887	2,802
777)	(212,330)
090)	£(209,528)

cognised in the accounts.

£Nil).

