

Middlesbrough Football & Athletic Company (1986) Limited

Annual report for the year ended 31 July 1996

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Middlesbrough Football & Athletic Company (1986) Limited

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Directors and advisers

Executive directors

S Gibson
G L Cook
K Lamb

Secretary and registered office

D A Castle
Cellnet Riverside Stadium
Middlesbrough
Cleveland
TS3 6RS

Registered Auditors

Coopers & Lybrand
Hadrian House
Higham Place
Newcastle upon Tyne
NE1 8BP

Solicitors

Dickinson Dees
Cross House
Westgate Road
Newcastle upon Tyne
NE99 1SB

Bankers

Barclays Bank plc
Barclays House
Sabatier Close
Teesside Business Park
Thornaby
Stockton on Tees
Cleveland
TS17 6EW

Middlesbrough Football & Athletic Company (1986) Limited

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Directors' report for the year ended 31 July 1996

The directors present their report and the audited financial statements for the year ended 31 July 1996.

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 1996 and the year end financial position to be satisfactory having taken into consideration the accounting policy adopted for transfer fees and the company's ability to raise funds through its principal activity (see Note 1 to the financial statements).

Dividends and transfers to reserves

The directors do not recommend the payment of a dividend and the retained loss has been added to the deficit on reserves.

Post balance sheet events

Subsequent to the year end the company has entered into agreements worth approximately £16,000,000 for the acquisition of and £9,000,000 for the sale of players.

On 16 August 1996 the sale of Ayresome Park was completed for consideration of £1,000,000. The proceeds were used to repay a bank loan of £950,000.

On 15 October 1996 the company purchased Rockliffe Park, Darlington for £750,000.

On 22 November 1996 the company issued additional share capital of 231,000 £1 ordinary shares.

Directors

The directors of the company at 31 July 1996, all of whom have been directors for the whole of the year ending on that date, are listed below.

S Gibson (Chairman)
G L Cook
K Lamb

Middlesbrough Football & Athletic Company (1986) ³ Limited

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

None of the directors of the company have a direct holding in the shares of the company.

The interests of the directors in the shares of other group companies at 31 July 1996, were:

The Gibson O'Neill Company Limited - ordinary shares £1
S Gibson

1 August 1995
and
31 July 1996

18,750

Other than shown above no director had any interest in the shares of other group companies at 31 July 1996.

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 1996. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis (see Note 1 to the financial statements).

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.

Charitable donations

Donations made by the company during the year for charitable purposes were £5,000 in total.

Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the annual general meeting.

By order of the board



Secretary
30 May 1997

Middlesbrough Football & Athletic Company (1986) Limited

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

We have audited the financial statements on pages 6 to 18.

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.

Going concern

In forming our opinion we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the basis of preparation. The financial statements have been prepared on a going concern basis and the validity of this depends upon the company's ability to operate within agreed overdraft facilities.

Should the going concern basis not be appropriate adjustments would have to be made to restate the value of the company's assets to their realisable values.

In view of the significance of this fundamental uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Middlesbrough Football & Athletic Company (1986) Limited

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Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 July 1996 and of the loss and cash flows of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Casper & Hyland

Chartered Accountants and Registered Auditors
Newcastle upon Tyne

30 May 1997

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Profit and loss account for the year ended 31 July 1996

	Notes	1996 £'000	1995 £'000
Turnover	2	14,024	5,705
Cost of sales		(9,611)	(5,789)
		<hr/>	<hr/>
Gross profit/(loss)		4,413	(84)
Administrative expenses		(2,522)	(1,410)
Other operating income		121	-
		<hr/>	<hr/>
Operating profit/(loss) before transfer fees and similar payments		2,012	(1,494)
Transfer fees and similar payments		(13,160)	(2,541)
		<hr/>	<hr/>
Operating loss after transfer fees and similar payments		(11,148)	(4,035)
Interest payable and similar charges	5	(1,047)	(263)
		<hr/>	<hr/>
Loss on ordinary activities before taxation	6	(12,195)	(4,298)
Tax on loss on ordinary activities	7	1,441	651
		<hr/>	<hr/>
Loss for the financial year	16	<u>(10,754)</u>	<u>(3,647)</u>

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 year stated above, and their historical cost equivalents.

Middlesbrough Football & Athletic Company (1986) ⁷ Limited

Balance sheet at 31 July 1996

	Notes	1996 £'000	1995 £'000
Fixed assets			
Tangible assets	8	<u>13,065</u>	<u>10,769</u>
Current assets			
Assets awaiting resale	9	453	486
Stocks	10	265	79
Debtors	11	2,249	2,012
Cash at bank and in hand		27	9
		<u>2,994</u>	<u>2,586</u>
Creditors: amounts falling due within one year	12	<u>(20,735)</u>	<u>(11,857)</u>
Net current liabilities		<u>(17,741)</u>	<u>(9,271)</u>
Total assets less current liabilities		<u>(4,676)</u>	<u>1,498</u>
Creditors: amounts falling due after more than one year	13	<u>10,117</u>	<u>7,103</u>
Accruals and deferred income	14	<u>2,629</u>	<u>1,063</u>
Capital and reserves			
Called-up share capital	15	825	825
Profit and loss account	16	<u>(18,247)</u>	<u>(7,493)</u>
Equity shareholders' deficit	17	<u>(17,422)</u>	<u>(6,668)</u>
		<u>(4,676)</u>	<u>1,498</u>

The financial statements on pages 6 to 18 were approved by the board of directors on 30 May 1997 and were signed on its behalf by:




} Directors

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Cash flow statement for the year ended 31 July 1996

	Notes	1996 £'000	1995 £'000
Net cash outflow from continuing operating activities	18	<u>(5,670)</u>	<u>(129)</u>
Returns on investments and servicing of finance			
Interest paid		(923)	(259)
Interest paid on finance leases		<u>(8)</u>	<u>(4)</u>
Net cash outflow from returns on investments and servicing of finance		<u>(931)</u>	<u>(263)</u>
Taxation			
Group relief received		<u>2,663</u>	<u>-</u>
Tax received		<u>2,663</u>	<u>-</u>
Investing activities			
Purchase of tangible fixed assets		<u>(2,583)</u>	<u>(8,713)</u>
Net cash outflow from investing activities		<u>(2,583)</u>	<u>(8,713)</u>
Net cash outflow before financing		<u>(6,521)</u>	<u>(9,105)</u>
Financing activities			
Repayment of principal on finance leases	19	(17)	(32)
Loans received	19	2,846	7,279
Loans repaid	19	(175)	(9)
Grants received	14	<u>1,687</u>	<u>1,063</u>
Net cash inflow from financing		<u>4,341</u>	<u>8,301</u>
Decrease in cash and cash equivalents	20	<u><u>(2,180)</u></u>	<u><u>(804)</u></u>

Middlesbrough Football & Athletic Company (1986) ⁹ Limited

Notes to the financial statements for the year ended 31 July 1996

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.

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 an overdraft facility which is repayable on demand. The validity of the going concern basis depends upon the company's ability to operate within agreed overdraft facilities. The nature of the company's business is such that a significant number of future cash inflows are dependent upon the football team's success, and as such, the amount of these inflows is uncertain. Despite this uncertainty the directors consider that current financing facilities, taking into account the company's ability to raise additional funds through its principal activity, are 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.

Tangible fixed assets

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition.

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:

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

Freehold land and buildings are not depreciated. In the opinion of the directors the amounts involved are immaterial.

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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 in proportion to the reduced capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

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.

Grants

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

Turnover

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

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.

Transfer fees and signing on fees

Transfer fees and similar payments are charged or credited to the profit and loss account in the period in which the transaction takes place. 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. Amounts are shown separately in the profit and loss account as the directors consider there is no other appropriate format heading.

Promotional rights

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

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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

Fees and other emoluments (excluding pension contributions) include amounts paid to:

	1996 £	1995 £
The Chairman	-	-
The highest paid director	<u>85,020</u>	<u>-</u>

The number of directors (including the chairman and the highest paid director) who received fees and other emoluments (excluding pension contributions) within the following ranges was:

	1996 Number	1995 Number
£0 to £5,000	2	2
£85,000 to £90,000	<u>1</u>	<u>-</u>

4 Employee information

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

	1996 Number	1995 Number
Playing staff	38	40
Other staff	<u>67</u>	<u>47</u>
	<u>105</u>	<u>87</u>
	<u>1996</u>	<u>1995</u>
	£'000	£'000
Staff costs (for the above persons):		
Wages and salaries	5,971	5,253
Social security costs	<u>517</u>	<u>400</u>
	<u>6,488</u>	<u>5,653</u>

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5 Interest payable and similar charges

	1996 £'000	1995 £'000
On bank loans, overdrafts and other loans:		
Repayable within 5 years, not by instalments	469	160
Repayable wholly or partly in more than 5 years by instalments	570	99
On finance leases	8	4
	<u>1,047</u>	<u>263</u>

6 Loss on ordinary activities before taxation

	1996 £'000	1995 £'000
Loss on ordinary activities before taxation is stated after charging:		
Depreciation charge for the year:		
Tangible owned fixed assets	543	87
Tangible fixed assets held under finance leases	49	19
Auditors remuneration for:		
Audit services	12	10
Other services to the company	16	13
	<u> </u>	<u> </u>
and after crediting:		
Release of deferred grant	121	11
	<u> </u>	<u> </u>

7 Tax on loss on ordinary activities

	1996 £'000	1995 £'000
United Kingdom corporation tax at 33% (1995: 33%):		
Current	(1,441)	(505)
Over-provision in respect of prior years:		
Current	-	(146)
	<u>(1,441)</u>	<u>(651)</u>

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

8 Tangible fixed assets

	Freehold land and buildings	Leasehold land and buildings	Motor vehicles	Fixtures, fittings, plant and machinery	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 August 1995	-	-	43	139	10,656	10,838
Transfers	-	10,577	-	79	(10,656)	-
Additions	213	2,337	51	287	-	2,888
At 31 July 1996	213	12,914	94	505	-	13,726
Depreciation						
At 1 August 1995	-	-	26	43	-	69
Charge for the year	-	506	14	72	-	592
At 31 July 1996	-	506	40	115	-	661
Net book value						
At 31 July 1996	213	12,408	54	390	-	13,065
Net book value						
At 31 July 1995	-	-	17	96	10,656	10,769

Additions include £147,000 (1995: £143,000) in respect of interest capitalised. Accumulated interest capitalised included in the total cost above amounts to £290,000 (1995: £143,000).

The net book value of tangible fixed assets includes an amount of £296,000 (1995: £17,000) in respect of assets held under finance leases.

9 Assets awaiting resale

Assets awaiting resale relate to the Ayresome Park stadium. Subsequent to the year end the stadium was sold.

10 Stocks

	1996 £'000	1995 £'000
Finished goods and goods for resale	265	79

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11 Debtors

	1996 £'000	1995 £'000
Amounts falling due within one year		
Trade debtors	412	816
Transfer fees receivable	-	10
Other debtors	218	170
Corporation tax recoverable	-	630
Other taxation and social security	-	325
Prepayments and accrued income	1,619	61
	<u>2,249</u>	<u>2,012</u>

12 Creditors: amounts falling due within one year

	1996 £'000	1995 £'000
Bank loans and overdraft	6,220	2,494
Trade creditors	1,050	2,041
Obligations under finance leases	64	17
Other loans	243	174
Transfer fees payable	1,344	750
Other taxation and social security payable	2,319	178
Other creditors	898	256
Deferred income	7,210	3,560
Accruals	1,387	2,387
	<u>20,735</u>	<u>11,857</u>

13 Creditors: amounts falling due after more than one year

	1996 £'000	1995 £'000
Bank loans	7,422	6,729
Other loans	739	367
Obligations under finance leases	248	7
Deferred income	1,708	-
	<u>10,117</u>	<u>7,103</u>

- (a) Included in bank loans and overdraft is an overdraft of £4,692,000 (1995: £2,494,000) which is secured by fixed and floating charges over the assets of the company and by guarantees given by one of the shareholders.
- (b) Included in bank loans and overdraft is a loan of £8,000,000 (1995: £6,729,000). On 22 May 1997 the Teesside Development Corporation transferred the leasehold rights of the Cellnet Riverside Stadium land to the company. Thereafter this loan was secured by a first fixed and floating charge over the Cellnet Riverside Stadium and, previously repayable on demand, was converted to a medium term loan and hence is disclosed as such in the financial statements.

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- (c) Included in bank loans and overdraft is a loan of £950,000 (1995: £Nil) which is secured by first fixed and floating charges over Ayresome Park.
- (d) Included in bank loans and overdraft is a loan of £175,000 (1995: £Nil) which is secured by first fixed and floating charges over the freehold land and buildings.

Bank loans and overdrafts and other loans

	1996 £'000	1995 £'000
Repayable as follows:		
In one year or less	6,463	2,668
Between one and two years	933	850
Between two and five years	2,252	3,184
Over five years	4,976	3,062
	<u>14,624</u>	<u>9,764</u>

Creditors repayable in five years or more

	1996 £	1995 £
2.375% above LIBOR, secured loan repayable by one instalment of £405,000 and thereafter half yearly instalments of £345,000 commencing on 23 May 1997	4,660	3,062
1% above standard building society variable rate, secured loan repayable by monthly instalments of £1,000.	125	-
Unsecured brewery loan repayable by barrelage discount at a minimum of £50,000 a year.	191	-
	<u>4,976</u>	<u>3,062</u>

Finance leases

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

	1996 £'000	1995 £'000
In one year or less	64	17
Between one and five years	248	7
	<u>312</u>	<u>24</u>

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14 Accruals and deferred income

Football Trust Grant

	£'000
At 1 August 1995	1,063
Received	1,687
Amortised in year	(121)
	<u>2,629</u>
At 31 July 1996	<u>2,629</u>

15 Called-up share capital

	1996 £'000	1995 £'000
Authorised		
2,000,000 ordinary shares of £1 each	<u>2,000</u>	<u>2,000</u>
Allotted, called-up and fully paid		
825,000 ordinary shares of £1 each	<u>825</u>	<u>825</u>

16 Profit and loss account

	£'000
At 1 August 1995	(7,493)
Loss for the financial year	(10,754)
	<u>(18,247)</u>
At 31 July 1996	<u>(18,247)</u>

17 Reconciliation of movements in shareholders' deficit

	1996 £'000	1995 £'000
Opening equity shareholders' deficit	(6,668)	(3,021)
Loss for the financial year	(10,754)	(3,647)
	<u>(17,422)</u>	<u>(6,668)</u>
Closing equity shareholders' deficit	<u>(17,422)</u>	<u>(6,668)</u>

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18 Reconciliation of operating loss to net cash outflow from operating activities

	1996 £'000	1995 £'000
Operating loss after transfer fees and similar payments	(11,148)	(4,035)
Depreciation of tangible fixed assets	592	106
Increase in stocks	(186)	(48)
Increase in other debtors	(867)	(512)
Increase in creditors	6,069	4,371
Grant release	(121)	(11)
Non-cash brewery loan repayment	(9)	-
	<u>(5,670)</u>	<u>(129)</u>

19 Analysis of changes in financing during the year

	1996		1995	
	Share capital £'000	Loans and finance lease obligations £'000	Share capital £'000	Loans and finance lease obligations £'000
At 1 August 1995	825	7,294	825	34
Inception of finance lease contracts	-	305	-	22
Bank loans received	-	2,396	-	6,729
Other loans received	-	450	-	550
Repayments of principal on finance lease	-	(17)	-	(32)
Repayment of other loans	-	(175)	-	(9)
Non-cash repayment of loans	-	(9)	-	-
	<u>825</u>	<u>10,244</u>	<u>825</u>	<u>7,294</u>

20 Cash and cash equivalents

	1996 £'000	1995 £'000
Changes during the year		
At 1 August 1995	(2,485)	(1,681)
Net cash outflow	(2,180)	(804)
	<u>(4,665)</u>	<u>(2,485)</u>

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	1996 £'000	1996 Change in year £'000	1995 £'000	1995 Change in year £'000	1994 £'000
Analysis of balances					
Cash at bank and in hand	27	18	9	3	6
Overdraft	(4,692)	(2,198)	(2,494)	(807)	(1,687)
	<u>(4,665)</u>	<u>(2,180)</u>	<u>(2,485)</u>	<u>(804)</u>	<u>(1,681)</u>

21 Post balance sheet events

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

22 Capital commitments

	1996 £'000	1995 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	<u>150</u>	<u>1,270</u>

23 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. 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.