



**MASH Holdings Limited**  
Annual Report & Accounts  
For the period ended 30 April 2010

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**Company no 06861426**

## Company information

**Company registration number:** 06861426

**Registered office:** Unit A, Brook Park East  
Shirebrook  
NG20 8RY

**Directors:** Robert Mellors (appointed 27 March 2009)  
Olswang Directors 1 Limited (resigned 27 March 2009)  
Olswang Directors 2 Limited (resigned 27 March 2009)

**Secretary:** David Forsey (appointed 12 May 2009)

**Auditor:** Grant Thornton UK LLP  
Statutory Auditor  
Chartered Accountants  
2 Broadfield Court  
SHEFFIELD  
S8 0XF

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## Report of the director

The director has pleasure in submitting his report, together with the Consolidated financial statements of the Group for the period ended 30 April 2010

### Background

The company MASH Holdings Limited was incorporated on 27 March 2009. The group which MASH Holdings Limited now heads was formed by the issue of shares in MASH Holdings Limited in exchange for shares in Sports Direct International plc and St James Holdings Limited. The method of accounting adopted is merger accounting and the consolidated information in this report is prepared on the basis that the current group existed throughout the period. The company information relates to the period from incorporation to 30 April 2010.

### Principal activities

The principal activities of the Group during the period were

- the operation of a professional football club together with related and ancillary activities,
- retailing of sports and leisure clothing,
- wholesale distribution and sale of sports and leisure clothing, and
- licensing of group brands

### Review of the Business

It is good to be able to report on another year of strong growth for Sports Direct, achieved by delivering what we said we would. The resilience of our business model continues to add significant value to our operations by providing customers with an unrivalled depth and breadth of product choice at the best available prices, across all categories and in all stores for serious sportsmen and women.

With a number of new stores opened during the year in the UK and Europe, we are taking our offer to an ever increasing customer base which is responding positively to stronger in-store marketing and promotional initiatives. We are proud of our reputation for quality and remain as determined as ever to strengthen our position as the clear market leader in the UK sports retail sector.

I am especially pleased that our people will benefit from their contribution to Group success through our meeting the first year's target for the Employee Bonus Share Scheme introduced last year.

The financial results for Newcastle United Football Club reflect the impact of relegation to the Football League Championship and the refocusing of the Club's finances that was required as a result. There was a 39% reduction in Turnover and Operating Costs were reduced by 24%. The Club's operating loss before exceptional items and amortisation of players' registrations increased by 84%.

The finances of the Club were also significantly impacted by a reduction in the level of external Bank borrowings and an increase in the financial support received from the ultimate shareholder, Mike Ashley.

### Results and dividends

The consolidated profit and loss account is set out on page 5 and shows a loss for the year after taxation of £592,000 (2009: loss of £41,173,000). The directors do not recommend the payment of a dividend (2009: nil).

### Future developments

Looking ahead, although we shall have to manage the impact of the announced increase in VAT in January 2011, we are confident that initiatives we are taking across all areas of the Group, including improved staff training and new, specialist in-store merchandising areas, put us in a strong position for the next phase of our growth. We believe we are operationally stronger than ever.

## Report of the director

### Directors

The directors who served the company during the year and the present membership of the board are set out below. All directors served throughout the year except where stated.

R Mellors (appointed 27 March 2009)  
 Olswang Directors 1 Limited (appointed and resigned 27 March 2009)  
 Olswang Directors 2 Limited (appointed and resigned 27 March 2009)

### Charitable donations

Charitable donations of £4,000 (2009 £50,000) were made during the year.

### Key performance indicators

The Board monitors the performance of the Group by reference to a number of key performance indicators (KPIs). The most important of these KPIs are:

	Period ended 30 April 2010	Period ended 30 April 2009
<b>Financial KPIs</b>		
Group revenue	£1,513m	£1,456m
Profit/(loss) before Taxation	£26.1m	(£28.1m)
UK Retail gross margin	41.3%	42.5%
UK Retail like-for-like stores gross contribution (1)	+3.4%	+2.5%
<b>Non Financial KPIs</b>		
No. of core stores (2)	300	292
Customer complaints % change	+4.0%	-7.5%
Employee turnover	17.0%	29.0%
Cardboard recycling	5,847 tonnes	6,007 tonnes

(1) Like-for-like gross contribution for UK Retail is the percentage change in successive 12 month periods. Like-for-like gross contribution is adjusted to eliminate the impact of foreign currency movements. A like-for-like store is one that has been trading for the full 12 months in both periods, and has not been affected by a significant change such as a refit. Store gross contribution is the excess of sales revenue (net of VAT) over the cost of goods sold. The gross contribution would only be adjusted if a significant promotion affected the comparison.

(2) A core store is a store acquired and fitted out by the Group or otherwise so designated.

### Disabled employees

Applications for employment by disabled persons are given full and fair considerations for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled, every effort is made to re-train them in order that their employment with the Group may continue.

It is the policy of the Group that training, career development and promotion opportunities should be available to all employees.

### Employee investment

The Group has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the Group.

## Report of the director

### **Financial risk management objectives and policies**

The Group uses financial instruments, other than derivatives, comprising loans, cash and other liquid resources and various other items such as trade debtors, creditors and finance lease arrangements that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main issues arising from the Group's financial instruments are liquidity risk and interest rate risk. The directors review and agree policies for managing each of these risks and they are summarised below. The policies have remained unchanged from the previous period.

### **Liquidity risk**

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs by negotiating adequate facilities from the Group's bankers and other lenders.

### **Interest rate risk**

The Group finances its operations through a mixture of shareholders' equity, retained profits and bank borrowings. The Company's exposure to interest rate fluctuations is managed by the use of both fixed and floating facilities.

### **Director's responsibilities for the financial statements**

The director is responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations. Company law requires the director to prepare financial statements for each financial year. Under that law, the director has elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the parent Company and of the profit or loss of the Group for that period. In preparing those financial statements, the director is required to

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The director is responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. He is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the director is aware

- there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all steps that they ought to have taken to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

### **Auditors**

Grant Thornton UK LLP, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the company receives notice under section 488(1) of the Companies Act 2006.

ON BEHALF OF THE BOARD

  
R Mellors

Director

28 February 2011

# Report of the independent auditor to the members of MASH Holdings Limited

We have audited the financial statements of MASH Holdings Limited for the period ended 30 April 2010 which comprise the consolidated profit and loss account, the balance sheets, the consolidated statement of total recognised gains and losses, the consolidated cash flow statement and notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 the director and auditors**

As explained more fully in the Directors' Responsibilities Statement on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 April 2010 and of the group's loss for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Michael Redfern  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP, Statutory Auditor, Chartered Accountants  
Sheffield  
1 March 2011

## Consolidated profit and loss account

	Note	2010 £'000	2009 £'000
<b>Turnover including share of joint ventures and associates</b>		<b>1,598,007</b>	<b>1,537,280</b>
Share of sales of joint ventures and associates		(84,832)	(80,900)
<b>Group turnover</b>	2	<b>1,513,175</b>	<b>1,456,380</b>
Cost of sales		(862,490)	(809,685)
<b>Gross profit</b>		<b>650,685</b>	<b>646,695</b>
Administrative expenses		(605,090)	(559,343)
Other operating income	4	3,493	4,004
Exceptional items	5	(9,986)	(36,498)
		(611,583)	(591,837)
Amortisation and impairment of players registrations		(13,432)	(19,326)
Amortisation of goodwill		(18,152)	(18,152)
		(643,167)	(629,315)
<b>Group operating profit</b>		<b>7,518</b>	<b>17,380</b>
Share of operating profit of joint ventures and associates		4,132	6,106
<b>Operating profit including joint ventures and associates</b>		<b>11,650</b>	<b>23,486</b>
Profit on disposal of players registrations		15,423	25,321
Loss on disposal of available-for-sale financial assets		-	(53,156)
Other investment income		10,238	(1,236)
Net interest payable	6	(11,218)	(22,471)
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>26,093</b>	<b>(28,056)</b>
Taxation	8	(16,445)	(23,347)
<b>Profit/(loss) on ordinary activities for the year</b>		<b>9,648</b>	<b>(51,403)</b>
Minority interest	26	(10,240)	10,230
<b>Loss for the financial year</b>	25	<b>(592)</b>	<b>(41,173)</b>

All activities of the group are classed as continuing

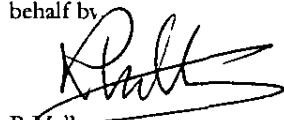
**The accompanying accounting policies and notes form an integral part of these financial statements.**



## Balance sheets

	Note	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000
<b>Fixed assets</b>				
Intangible assets	10	351,745	391,454	-
Tangible assets	11	351,776	380,791	-
Other investments	12	22,228	4,248	241,518
		<u>725,749</u>	<u>776,493</u>	<u>241,518</u>
<b>Investment in joint venture</b>				
Share of gross assets		73,923	73,928	-
Share of gross liabilities		(38,323)	(39,770)	-
	13	<u>35,600</u>	<u>34,158</u>	<u>-</u>
		<u>761,349</u>	<u>810,651</u>	<u>241,518</u>
<b>Current assets</b>				
Stocks	14	219,843	263,260	-
Debtors amounts falling due within one year	15	128,634	146,938	5,008
Cash in hand at bank		25,183	32,366	3
		<u>373,660</u>	<u>442,564</u>	<u>5,011</u>
<b>Creditors amounts falling due within one year</b>	16	(874,998)	(1,013,491)	(5,008)
<b>Net current liabilities</b>		<u>(501,338)</u>	<u>(570,927)</u>	<u>3</u>
<b>Total assets less current liabilities</b>		<b>260,011</b>	<b>239,724</b>	<b>241,521</b>
<b>Creditors amounts falling due after more than one year</b>	17	(22,459)	(13,902)	-
Provisions for liabilities	20	(79,218)	(71,054)	-
Deferred income	22	(17,076)	(21,464)	-
<b>Net assets excluding pension liabilities</b>		<u>141,258</u>	<u>133,304</u>	<u>241,521</u>
Defined benefit pension scheme liability	23	(14,212)	(8,910)	-
<b>Net assets including pension scheme liability</b>		<u>127,046</u>	<u>124,394</u>	<u>241,521</u>
<b>Capital and reserves</b>				
Called up share capital	24	1	1	1
Share premium account	25	241,517	241,517	241,517
Other reserve arising on merger	25	(291,088)	(291,088)	-
Other reserve employee benefit trust	25	(6,094)	(6,094)	-
Foreign currency translation reserve	25	40,633	48,580	-
Profit and loss account	25	95,539	93,548	3
<b>Shareholders' funds</b>	27	<u>80,508</u>	<u>86,464</u>	<u>241,521</u>
Minority interest	26	46,538	37,930	-
		<u>127,046</u>	<u>124,394</u>	<u>241,521</u>

The financial statements were approved by the Board of Directors on 28 February 2011 and are signed on their behalf by

  
R Mellors  
Director

Company number 06861426

**The accompanying accounting policies and notes form an integral part of these financial statements.**

## Consolidated statement of total recognised gains and losses

	2010 £'000	2009 £'000
Loss for the financial year	(592)	(41,173)
Actuarial losses	(8,184)	(449)
Exchange differences on translation of foreign operations	(7,947)	44,654
Other recognised gains and losses	(16,131)	44,205
<b>Total recognised gains and losses since last financial year</b>	<b>(16,723)</b>	<b>3,032</b>

**The accompanying accounting policies and notes form an integral part of these financial statements.**

## Consolidated cash flow statement

	Note	2010 £'000	2009 £'000
<b>Net cash outflow from operating activities</b>	28	<u>178,649</u>	<u>113,294</u>
<b>Returns on investments and servicing of finance</b>			
Interest received		810	1,185
Interest paid		(12,037)	(24,658)
Investment income received		1,728	2,088
Equity dividend paid		(6,935)	(25,580)
		<u>(16,434)</u>	<u>(46,965)</u>
<b>Taxation</b>		<u>(34,834)</u>	<u>(25,305)</u>
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(17,004)	(34,383)
Payments to acquire other intangible assets		(2,586)	(3,958)
Payments to acquire player registrations		(14,510)	(33,110)
Payments to acquire listed investments		(16,301)	(4,887)
Proceeds from disposal of other intangible assets		-	-
Proceeds from disposal of player registrations		44,172	15,029
Proceeds from disposal of tangible fixed assets		882	3,073
Proceeds on disposal of listed investments		8,040	13,807
De-recognition of listed investment		-	20,298
Purchase of subsidiaries, net of cash acquired		(3,330)	(6,608)
<b>Net cash outflow from capital expenditure and financial investment</b>		<u>(637)</u>	<u>(30,739)</u>
<b>Net cash inflow before financing</b>		<u>126,744</u>	<u>10,285</u>
<b>Financing</b>			
Capital element of finance lease payments		(82)	(112)
Net (repayment of)/receipt of bank borrowings		(3,447)	7,926
<b>Net cash (outflow)/inflow from financing</b>		<u>(3,529)</u>	<u>7,814</u>
<b>Increase in cash</b>	29	<u>123,215</u>	<u>18,099</u>

**The accompanying accounting policies and notes form an integral part of these financial statements.**

## Notes to the financial statements

### 1 Accounting policies

#### Basis of preparation

MASH Holdings Limited ('the Company') is a company incorporated in the United Kingdom. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as 'the Group'). The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

The financial statements have been prepared under the historical cost convention and in accordance with United Kingdom law and applicable accounting standards (United Kingdom Generally Accepted Accounting Practice) except for the true and fair override in respect of the adoption of merger accounting set out below. On presenting the Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006.

The accounting policies set out below have been applied consistently for the Group to all periods presented in these consolidated financial statements. The accounting policies have been applied to the company's first accounting period.

#### Going concern

The Directors have a reasonable expectation that the Group will be able to continue as a going concern for the foreseeable future, and for this reason they continue to adopt the going concern basis in preparing the financial statements.

The Directors have prepared financial forecasts and expect to maintain suitable financial facilities from their bankers and ultimate shareholder to provide adequate ongoing finance consistent with these forecast requirements. The Directors have concluded that the Group remains a going concern and have accordingly prepared these financial statements on the going concern basis.

#### True and fair override

The accounting requirements of the Companies Act 2006 and FRS 6 to the extent that FRS 6 requires the Companies Act 2006 to be met have not been adhered to in respect of acquisition accounting. As the transactions to acquire the shares of both St James Holdings Limited and Sports Direct International plc from Mike Ashley do not alter the relative rights of the company's shareholder the recognition of goodwill is considered to be inappropriate.

The financial statements therefore present the assets and liabilities of the merged entities at the book values stated immediately before the merger took place. If acquisition accounting had been adopted the assets and liabilities would be included at fair value and the difference between the fair value of the net assets accrued and the fair value of the shares issued would be goodwill. As the fair values have not been calculated the quantification of the effect of the true and fair override cannot be given.

#### Basis of consolidation

The consolidated balance sheet and profit and loss account include the accounts of the Company and its subsidiaries made up to 30 April. All intra group trading has been eliminated. Interests in associates and joint ventures are equity accounted.

The consolidated financial statements have been prepared in accordance with the principles of merger accounting, consequently the assets and liabilities of the subsidiaries have been included at the amount at which the subsidiaries recorded them in their books before the combinations.

#### Merger relief

Where the company acquired 100% of the shares of St James Holdings Limited by the issue of its own ordinary shares the conditions for merger relief under the Companies Act 2006 were met. The company has chosen to account for this transaction at nominal value and therefore recognises the cost of investment in St James Holdings Limited at the nominal amount of the shares issued. As a result no share premium or merger reserve arises.

## Notes to the financial statements

### 1 Accounting policies (continued)

#### **Associates and joint ventures**

Associates are entities over which the Group has significant influence but not control, generally accompanied by a share of between 20% and 50% of the voting rights

A joint venture is an entity in which the Group holds an interest on a long term basis and which is jointly controlled by the Group and one or more other ventures under a contractual agreement

The Group's share of the results of associates and joint ventures is included in the Group's consolidated income statement using the equity method of accounting. Investments in associates and joint ventures are carried in the Group's consolidated balance sheet at cost plus post acquisition changes in the Group's share of the net assets of the associates, less any impairment in value. The carrying values of investments in associates and joint ventures include acquired goodwill.

If the Group's share of losses in an associate or joint venture equals or exceeds its investment in the associate or joint venture, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the associate or joint venture.

Unrealised gains arising from transactions with associates and joint ventures are eliminated to the extent of the Group's interest in the entity.

#### **Turnover**

Turnover represents income arising from sales to third parties, and excludes transfer fees receivable, which are dealt with in the profit or loss on disposal of players' registrations, and value added tax. Turnover can be classified into three major streams, within which significant amounts are accounted for as follows:

##### *Matchday*

Season ticket and corporate hospitality revenue is recognised over the period of the football season as home matches are played. Any revenues received in respect of future matches is held as deferred income.

##### *Media*

Fixed elements of central broadcasting contracts are recognised over the period of the football season as league matches (home and away) are played. Appearance fees are accounted for as earned. The merit based payment is recognised at the end of the league season, when the final league position is known.

##### *Commercial*

Sponsorship contracts are recognised over the duration of the contract, either on a straight-line basis, or over the period of the football season, as appropriate based on the terms of contract. Catering revenues are recognised on an earned basis. Revenue from the sale of branded products is recognised at the point of despatch when significant risks and rewards of ownership are deemed to have been transferred to the buyer.

#### **Acquired players' registrations**

The costs of acquired player registrations, including agents' fees, are capitalised at cost at the date of acquisition as intangible assets and amortised over the period of the players' contracts, with appropriate adjustments for any diminutions in value assessed to have taken place.

For the purpose of impairment reviews, acquired players' registrations are classified as single cash-generating unit until the point at which it is made clear that the player is no longer an active member of the playing squad. In these circumstances the carrying value of the players' registration is reviewed against a measurable net realisable value.

#### **Contingent payments**

Under the conditions of certain transfer agreements, further fees may become payable to the selling club in the event of the player concerned making a certain number of first team appearances, or on the occurrence of certain other specified future events. Liabilities in respect of these additional payments are accounted for when, in the opinion of the Directors, it becomes probable that the number of required appearances will be achieved or the specified future event will occur. The balance of potential costs is disclosed as a contingent liability.

## Notes to the financial statements

### 1 Accounting policies (continued)

#### Signing on fees

Signing on fees are charged, on a straight-line basis, to the profit and loss account over the period of the player's contract. Prepayments/accruals arising at each period end are included within prepayments and accrued income or accruals within current assets or current liabilities, as appropriate. Where a player's registration is transferred, any signing on fees payable in respect of future periods are charged against the profit/(loss) on disposal of players' registrations in the period in which the disposal is recognised.

#### Deferred income

Deferred income comprises amounts received from capital grants, sponsorship, bond, corporate hospitality and season ticket income. Capital grants are released to the profit and loss account on a straight-line basis over the estimated useful lives of the assets to which they relate. Other deferred income is released to the profit and loss account on a straight-line basis over the period to which it relates.

#### Trademarks and licences

The cost of acquiring trademarks and licences is capitalised together with any direct costs of acquisition. The amount arising is amortised on a straight line basis over the estimated useful life of between 10 and 12 years.

#### Goodwill

On acquisition of a subsidiary or associated undertaking, the fair value of the consideration is allocated between the identifiable net tangible and intangible assets and liabilities on a fair value basis, with any excess consideration representing goodwill. Goodwill in respect of subsidiaries is included within intangible fixed assets. Goodwill relating to associated undertakings is included in the carrying value of the associated undertaking.

Goodwill arising on acquisitions is capitalised as an asset on the balance sheet. Where goodwill is regarded as having a finite useful economic life it is amortised on a straight line basis over its estimated life, up to a maximum of 20 years. Impairment reviews are carried out at the end of the first full year of ownership and at other times if there are indications that the carrying value may not be supportable.

#### Investments

Investments are stated at cost less amounts written off.

#### Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation, net of accumulated depreciation.

Depreciation on other tangible fixed assets is provided at the rates indicated below, to write off the cost or valuation of the assets, less estimated residual value, over their expected useful lives.

Freehold property	2%
Long leasehold property	Over the shorter of the unexpired term of the lease and 50 years
Fixtures and equipment	3 - 15 years
Motor vehicles	4 years

No depreciation is provided on freehold land or assets in the course of construction. The residual value is reassessed annually.

#### Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

## Notes to the financial statements

### **1 Accounting policies (continued)**

#### **Stock**

Stock are valued at lower of cost and net realisable value. Cost includes the purchase price of the manufactured products, materials, direct labour, transport costs and a proportion of applicable overheads. Cost is calculated using FIFO (first in, first out). Net realisable value is based on the estimated selling price less all estimated selling costs.

#### **Deferred tax**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date, that will result in an obligation to pay more, or a right to pay less tax in the future.

Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

#### **Government grants and similar income**

Income from government grants and similar income such as landlord contributions and inducements that compensate the Group for the cost of an asset are recognised in the balance sheet as a deduction in arriving at the carrying amount of the related asset. This is considered to reflect the true cost of the asset to the Group. The amount is recognised in the consolidated income statement over the life of the depreciable asset by way of a reduced depreciation charge. To date the Group has not received government grants in compensation for expenses charged in the consolidated income statement.

#### **Leasing and hire purchase contracts**

Where a lease transfers substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease.

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful economic lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease. All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

#### **Exceptional items**

The Group presents as exceptional items on the face of the income statement those significant items of income and expense which, because of their size, nature and infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods to assess trends in financial performance more readily.

#### **Foreign currencies**

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction or if hedged the forward contract rate. All differences are taken to the profit and loss account. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or if appropriate, at the forward rate.

## Notes to the financial statements

### **1 Accounting policies (continued)**

#### **Pensions**

##### **Defined Contribution Plan**

Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account as incurred

##### **Defined Benefit Scheme**

In relation to its defined benefit schemes, the Group recognises in its balance sheet the present value of its defined benefit obligations less the fair value of plan assets. The current service cost is charged against operating profit. Interest on the scheme liabilities is included in finance costs and the expected return on scheme assets is included in finance income.

The defined benefit obligation is calculated at each period end by independent actuaries using the projected unit credit method. The present value of the obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and which have terms to maturity approximating the terms of the related pension liabilities. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are reflected in the statement of recognised income and expense in the period in which they arise.

##### **Football League Limited Pension and Life Assurance Scheme**

Certain employees are members of the Football League Limited Pension and Life Assurance Scheme (FLLPLAS), a defined benefit scheme. As the Group is one of a number of participating employers in FLLPLAS, it is not possible to accrue any actuarial surplus or deficit on a meaningful basis. The assets of the scheme are held separately from those of the Group, being invested with insurance companies. Under the provisions of FRS 17 the scheme is treated as a defined benefit multi-employer scheme, and the contributions are charged to the profit and loss account as incurred.

#### **Provisions**

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The Group provides for dilapidations costs following advice from chartered surveyors and previous experience of exit costs. The estimated cost of fulfilling the leasehold dilapidations obligations is discounted to present value and analysed between non-capital and capital components. The capital element is recognised as a decommissioning cost and depreciated over the life of the asset. The non-capital element is taken to the income statement in the first year of the lease where the cost it represents is of no lasting benefit to the Group or its landlord. 'Wear and tear' costs are expensed to the income statement. Provisions for onerous lease contracts are recognised when the Group believes the unavoidable costs of meeting the lease obligations exceed the economic benefits expected to be received under the lease.

#### **Financial Instruments**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

Where none of the contractual terms of share capital meet the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.



## Notes to the financial statements

### 1 Accounting policies (continued)

#### Share-based payments

The Group issues equity-settled share-based payments to certain directors and employees. These are measured at fair value at the date of grant, which is expensed to the consolidated income statement on a straight-line basis over the vesting period, with the corresponding credit going to equity.

Fair value is based on the market share price on the grant date, the likelihood of meeting the vesting targets and the expected number of staff who will leave the Company prior to the vesting date. The expected staff numbers used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. A share-based payment charge of £10,767,000 was recognised in selling, distribution and administrative expenses for the period ended 30 April 2010.

### 2 Turnover

	2010 £'000	2009 £'000
UK	1,244,204	1,191,019
Rest of the World	268,971	265,361
	<u>1,513,175</u>	<u>1,456,380</u>

### 3 Profit/(loss) before tax

	2010 £'000	2009 £'000
<b>The profit/(loss) on ordinary activities is stated after</b>		
Depreciation of property, plant and equipment		
- Owned	50,491	48,549
- Leased	48	84
Amortisation and impairment of player registrations	13,432	(19,326)
Amortisation of other intangibles	2,897	3,586
Amortisation of goodwill	18,152	18,152
Operating lease rentals		
- Plant & Machinery	95,756	97,954
- Land & Buildings	730	679
Auditors' remuneration for Group audit services	25	-
Auditors' remuneration for subsidiary company audit service	626	850
Auditors' remuneration for taxation service	200	228
Auditors' remuneration for other services	35	32

### 4 Other operating income

	2010 £'000	2009 £'000
<b>Other operating income is made up as follows</b>		
Rent receivable	2,242	3,157
Other	1,251	847
	<u>3,493</u>	<u>4,004</u>

## Notes to the financial statements

### 5 Exceptional items

	2010 £'000	2009 £'000
Impairment of intangible assets	-	14,832
Impairment of freehold property	-	15,682
Changes in team management	-	5,342
Write down on goodwill carrying value	-	642
Provision for costs relating to regularity enquiries	7,800	-
Provision for cost of legal dispute	2,186	-
	<u>9,986</u>	<u>36,498</u>

### 6 Net interest payable

	2010 £'000	2009 £'000
Bank interest receivable	524	1,187
Other interest receivable	304	-
Expected return on pension plan assets	1,645	2,121
Bank overdraft and loans	(9,567)	(21,002)
Finance lease interest	-	(3)
Other interest payable and similar charges	(597)	(1,147)
Interest on retirement benefit obligations	(2,303)	(2,506)
Share of associated undertakings interest	(1,224)	(1,121)
	<u>(11,218)</u>	<u>(22,471)</u>

### 7 Staff costs

Staff costs during the year were as follows

	2010 £'000	2009 £'000
Wages and salaries	193,320	209,719
Social security costs	15,847	18,193
Pension costs	743	941
	<u>209,910</u>	<u>228,853</u>

The average number of employees during the year were as follows

	2010 Total Number	2009 Total Number
Playing squad and team management	177	123
Commercial	145	174
Administration	109	98
Retail stores	8,415	7,791
Distribution	2,504	2,609
	<u>11,350</u>	<u>10,795</u>

	2010 £'000	2009 £'000
Directors' emoluments		
Aggregate emoluments in respect of qualifying services	<u>150</u>	<u>150</u>

## Notes to the financial statements

### **8 Taxation**

#### **a) The tax charge represents**

##### Current tax

	2010 £'000	2009 £'000
Current year tax charge at 28% (2009 28%)	23,491	24,436
Share of associates' taxation	622	822
Share of Joint ventures' taxation	7	(98)
Deferred tax	(7,675)	(1,813)
	<u>16,445</u>	<u>23,347</u>

No provision has been made for deferred taxation on trading losses carried forward. The total amount unprovided for is approximately £25.6 million (2009 £22.5 million). At present it is not envisaged that future taxable profits will be sufficient for these timing differences to reverse.

	2010 £'000	2009 £'000
<b>b) Profit/(loss) on ordinary activities before tax</b>	<u>26,093</u>	<u>(28,056)</u>
Corporation tax in the UK of 28% (2009 28%)	7,306	(7,856)
Effect of		
Expenses not deductible for tax purposes	9,541	14,184
Impact of tax losses and other short-term temporary differences not recognised in deferred tax	651	1,050
Deferred tax recognised in respect of unremitted earnings from an associate	(3,070)	-
Unrelieved foreign tax	183	536
(Profit on)/de-recognition of listed investments	(2,448)	14,884
Depreciation in excess of capital allowances for the period	1,574	641
Other timing differences	(5,198)	(7,069)
Capital gain	3,747	5,132
Unused tax losses carried forward	3,530	1,121
<b>Group tax charge</b>	<u>15,816</u>	<u>22,623</u>

### **9 Profit for the financial period**

The Parent Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The profit for the period of the Company was £3,000.

## Notes to the financial statements

### 10 Intangible fixed assets

Group	Goodwill £'000	Players' registrations £'000	Trademarks and licences £'000	Total £'000
<b>Cost</b>				
At 1 May 2009	364,351	73,902	23,470	461,723
Additions	865	5,606	2,586	9,057
Disposals	-	(22,634)	(769)	(23,403)
Exchange adjustment	(10,284)	-	5,353	(4,931)
At 30 April 2010	<u>354,932</u>	<u>56,874</u>	<u>30,640</u>	<u>442,446</u>
<b>Amortisation</b>				
At 1 May 2009	(39,311)	(25,500)	(5,458)	(70,269)
Amortisation in year	(18,152)	(13,432)	(2,897)	(34,481)
Released on disposals	-	13,917	585	14,502
Exchange adjustment	-	-	(453)	(453)
At 30 April 2010	<u>(57,463)</u>	<u>(25,015)</u>	<u>(8,223)</u>	<u>(90,701)</u>
<b>Net book amount</b>				
At 30 April 2010	<u>297,469</u>	<u>31,859</u>	<u>22,417</u>	<u>351,745</u>
At 30 April 2009	<u>325,040</u>	<u>48,402</u>	<u>18,012</u>	<u>391,454</u>

Goodwill is estimated to have a useful life of 20 years

### 11 Tangible fixed assets

Group	Freehold land & buildings £'000	Leasehold land & buildings £'000	Plant & equipment £'000	Total £'000
<b>Cost</b>				
At 1 May 2009	123,800	220,722	307,930	652,452
Exchange adjustment	230	89	6,787	7,106
Additions	541	1,440	15,023	17,004
Disposals	(203)	(1,559)	(959)	(2,721)
At 30 April 2010	<u>124,368</u>	<u>220,692</u>	<u>328,781</u>	<u>673,841</u>
<b>Depreciation</b>				
At 1 May 2009	(26,711)	(64,746)	(180,204)	(271,661)
Exchange adjustment	(40)	211	(874)	(703)
Charge in the year	(2,682)	(14,108)	(33,749)	(50,539)
On disposals	-	789	49	838
At 30 April 2010	<u>(29,433)</u>	<u>(77,854)</u>	<u>(214,778)</u>	<u>(322,065)</u>
<b>Net book amount</b>				
At 30 April 2010	<u>94,935</u>	<u>142,838</u>	<u>114,003</u>	<u>351,776</u>
At 30 April 2009	<u>97,089</u>	<u>155,976</u>	<u>127,726</u>	<u>380,791</u>

The total amount of finance costs included in the cost of tangible fixed assets is £3,964,000 (2009 £3,964,000)

Included in freehold land and buildings is £2,626,000 (2009 £2,626,000) relating to land, which is not depreciated

## Notes to the financial statements

### **11 Tangible fixed assets (continued)**

The net book amount of assets held under finance leases and hire purchase contracts was as follows

	2010 £'000	2009 £'000
Motor vehicles	-	5
Fixtures and equipment	-	16
	<u>-</u>	<u>21</u>

### **12 Investments**

Company	Total £'000
<b>Shares in subsidiary undertaking</b>	
Additions and at 30 April 2010	<u>241,518</u>
<b>Group</b>	<b>Total £'000</b>
<b>Other investments</b>	
Cost and net book value as at 1 May 2009	4,248
Additions	22,228
Disposals	<u>(4,248)</u>
Cost and net book value as at 30 April 2010	<u>22,228</u>

## Notes to the financial statements

### 12 Investments (continued)

The principal subsidiaries of the Group were as follows. A full list of subsidiary companies is filed at Companies House with the annual return. All of the subsidiaries are incorporated in the UK unless otherwise indicated.

Name of company	Country of incorporation	Percentage of issued share capital held	Nature of business
Sports Direct International plc	England	71	Holding company
Antigua Enterprises Inc*	USA	100	Sporting and leisure goods wholesale and brand licensing
Brands & Fashion NV*	Belgium	100	Brand management and licensing
Brands Inc Limited*	England	100	Brand management and licensing
Brands Holdings Limited*	England	100	Brand management and licensing
CDS Holdings SA*	Belgium	100	Sporting and leisure goods retail
Donnav International SA*	England	100	Sporting and leisure goods wholesale and brand licensing
Dunlop Slazenger Group Limited*	USA	100	Sporting and leisure goods wholesale and brand licensing
Everlast Worldwide Inc*	England	100	Sporting and leisure goods wholesale and brand licensing
Field and Trek (UK) Limited*	England	100	Sporting and leisure goods retail
International Brand Management Limited*	England	100	Brand management
Kangol Holdings Limited*	England	100	Fashion and leisure goods wholesale and brand licensing
Karrimor Limited*	England	100	Fashion and leisure goods wholesale and brand licensing
Lillywhites Limited*	England	100	Sporting and leisure goods retail
Lonsdale Boxing Limited*	England	100	Fashion and leisure goods wholesale and brand licensing
Lonsdale Sports Limited*	England	100	Sporting and leisure goods wholesale and brand licensing
Smith and Brooks Holdings Limited*			Sporting and leisure goods wholesale and brand licensing
Sports Essentials Limited*	England	100	Sporting and leisure goods wholesale and brand licensing
Sportsdirect.com Retail Limited*	England	100	Sporting and leisure goods retail
Sports 2000 Sportne Trogovine*	Slovenia	100	Sporting and leisure goods retail
The Trademark Licensing Company Limited*	England	100	Brand licensing

## Notes to the financial statements

### 12 Investments (continued)

Name of company	Country of incorporation	Percentage of issued share capital held	Nature of business
Universal Cycles Limited*	England	86	Bicycle wholesaler
St James Holdings Limited	England	100	Holding company
Newcastle United Limited*	England	100	Holding company
Newcastle United Football Club Limited*	England	100	Professional football club
Newcastle United Enterprises Limited*	England	100	General commercial
St James' Park Newcastle Limited*	England	100	General commercial
Newcastle United Football Club (International) Limited*	Gibraltar	100	General commercial
nufc co uk Limited*	England	100	Exploitation of internet and media rights
MGM Grand Newcastle (Holdings) Limited*	England	100	Investment company
MGM Grand Newcastle Limited*	England	100	Property Development
Newcastle United 1892 Limited*	England	100	Dormant
Newcastle United Catering Limited*	England	100	Dormant
Newcastle United Employment Limited*	England	100	Dormant
Newcastle United Entertainment Limited*	England	100	Dormant
Newcastle United Group Limited*	England	100	Dormant
Newcastle United Licensing Limited*	England	100	Dormant
Newcastle United Promotions Limited*	England	100	Dormant
Newcastle United Publications Limited*	England	100	Dormant
Newcastle United Sports Limited*	England	100	Dormant
Newcastle United Sportswear Limited*	England	100	Dormant
Newcastle United Telecoms Limited*	England	100	Dormant
Newcastle United Television Limited*	England	100	Dormant
Newcastle United Ventures Limited*	England	100	Dormant
NUFC Limited*	England	100	Dormant
Newcastle United FC Limited*	England	100	Dormant
Newcastle United Football Club Limited*	England	100	Dormant
Newcastle (NUFC Holdings) Limited*	England	100	Dormant
Newcastle United Management Company Limited*	England	100	Dormant
The Football Channel Limited*	England	100	Dormant

\* Held by an intermediate subsidiary

## Notes to the financial statements

### 13 Investments in associated undertakings and joint ventures

The Group uses the equity method of accounting for associates and joint ventures. The following table shows the aggregate movement in the Group's investment in associates and joint ventures.

	Associates £'000	Joint ventures £'000	Total £'000
At 1 May 2009	26,942	7,216	34,158
Exchange differences	(87)	-	(87)
Additions	833	-	833
Share of profit/(loss)	2,391	(112)	2,279
Dividend paid	(1,583)	-	(1,583)
At 30 April 2010	<u>29,496</u>	<u>7,104</u>	<u>35,600</u>

#### Associates

The Group's associates are:

Company	Country of incorporation	Percentage of share capital held	Nature of business
Warrnambool	Republic of Ireland	50%	Household, sporting and leisure goods retail

On 16 April 2010, the Group acquired a further 7.5% of Warrnambool, a private unlimited company incorporated in the Republic of Ireland which is the ultimate parent undertaking of Heaton's, a private unlimited company. The excess of fair value acquired over consideration paid has been credited to the income statement as shown above.

This takes the Group's interest in Warrnambool to 50%. The business activity of Heaton's is that of household, sporting and leisure goods retail. Heaton's operates in the Republic of Ireland and Northern Ireland. The directors do not consider that they have control over the financial and operating policies of Warrnambool and so will continue to account for the Company as an associate.

The Group's share of associates' assets, liabilities and income statement, which is included in the consolidated financial statements, is as follows:

	2010 £'000	2009 £'000
Share of fixed assets	50,491	44,555
Share of current assets	18,036	18,686
Share of long-term liabilities	(25,105)	(13,954)
Share of current liabilities	<u>(11,784)</u>	<u>(24,124)</u>
	<u>31,638</u>	<u>25,163</u>
	2010 £'000	2009 £'000
Turnover	81,137	77,610
Expenses	<u>(76,900)</u>	<u>(71,653)</u>
Profit before interest and tax	4,237	5,957
Interest	<u>(1,224)</u>	<u>(1,121)</u>
Profit before tax	3,013	4,836
Taxation	<u>(622)</u>	<u>(822)</u>
Profit after tax	<u>2,391</u>	<u>4,014</u>



## Notes to the financial statements

### **13 Investments in associated undertakings and joint ventures (continued)**

Heatons has a coterminous year end with the Group. There are no significant restrictions on the ability of associated undertakings to transfer funds to the parent, other than those imposed by legal requirements.

#### **Joint ventures**

The Group's joint ventures are

<b>Name</b>	<b>Country of incorporation</b>	<b>Percentage of issued share capital held</b>	<b>Nature of business</b>
No Fear International Limited*	England	50	Brand licensing
PBF International Limited*	England	50	Brand licensing

\* Held by an intermediate subsidiary

All joint venture undertakings operate in their country of incorporation.

The Group's share of its joint ventures' assets, liabilities and income statement, which is included in the consolidated financial statements, is as follows:

	<b>2010 £'000</b>	<b>2009 £'000</b>
Share of fixed assets	5,916	5,860
Share of current assets	2,622	3,048
Share of long-term liabilities	-	-
Share of current liabilities	(1,434)	(1,692)
	<b>7,104</b>	<b>7,216</b>

	<b>2010 £'000</b>	<b>2009 £'000</b>
Turnover	3,695	3,290
Expenses	(3,800)	(3,141)
(Loss)/profit before tax	(105)	149
Taxation	(7)	98
(Loss)/profit after tax	<b>(112)</b>	<b>247</b>

## Notes to the financial statements

### 14 Stocks

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000
Raw materials	3,773	4,238	-
Work in progress	1,129	828	-
Finished goods and goods for resale	214,941	258,194	-
	<u>219,843</u>	<u>263,260</u>	<u>-</u>

### 15 Debtors

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000
Trade debtors	46,154	84,988	-
Amounts owed by related undertakings	2,481	6,547	-
Other debtors	40,145	21,221	-
Prepayments and accrued income	34,442	32,776	-
Deferred tax assets	5,412	1,406	-
Amounts owed by Group undertakings	-	-	5,008
	<u>128,634</u>	<u>146,938</u>	<u>5,008</u>

### 16 Creditors: amounts falling due within one year

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000
Bank overdraft	348,016	478,414	-
Term and other loans	243,664	262,114	-
Trade creditors	143,803	122,954	-
Amounts owed to related undertakings	4,044	3,029	5,008
Other taxes and social security costs	9,844	9,056	-
Other creditors	31,214	40,858	-
Accruals	75,055	66,339	-
Hire purchase and finance lease contracts	-	22	-
Corporation tax payable	19,358	30,705	-
	<u>874,998</u>	<u>1,013,491</u>	<u>5,008</u>

## Notes to the financial statements

### **17 Creditors: amounts falling due after more than one year**

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000
Other payables	2,345	2,656	-
Bank and other loans	19,289	4,286	-
Trade creditors	262	6,337	-
Hire purchase and finance lease contracts	563	623	-
	<u>22,459</u>	<u>13,902</u>	<u>-</u>

### **18 Borrowings**

Maturity Profile	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000
<b>In less than one year or on demand</b>			
Bank and other loans	459,778	608,626	-
Hire purchase and finance lease contracts	-	22	-
<b>In more than one years but less than two years</b>			
Bank and other loans	19,289	4,286	-
Hire purchase and finance lease contracts	187	142	-
<b>In more than two years but less than 5 years</b>			
Bank and other loans	-	-	-
Hire purchase and finance lease contracts	188	121	-
<b>In more than 5 years</b>			
Bank and other loans	-	-	-
Hire purchase and finance lease contracts	188	360	-
Borrowings	<u>(479,630)</u>	<u>(613,557)</u>	<u>-</u>
Cash	25,183	32,366	-
Net debt	<u>(454,447)</u>	<u>(581,191)</u>	<u>-</u>

£126 million (2009 £150 million) of the loans due in one year relate to a development overdraft facility used to finance the construction of the hotel next to the stadium in Newcastle. The facility agreement includes an option for the Group, once the development has been completed, to convert the overdraft facility to an 18 year term loan. The directors intend to exercise that option such that this amount will actually be payable over 18 years, not within one year.

## Notes to the financial statements

### 19 Deferred taxation

#### Group

The movement in the deferred tax adjustment in the year was

	2010 £'000	2009 £'000
Provision brought forward	(32,084)	(21,764)
Credited to profit and loss	7,675	1,813
Foreign exchange adjustment	(2,303)	(5,731)
Acquisitions	-	(6,402)
Provision carried forward	<u>(26,712)</u>	<u>(32,084)</u>

The group's provision for deferred taxation consists of the tax effect of timing differences in respect of

	2010		2009	
	Provided £'000	Unprovided £'000	Provided £'000	Unprovided £'000
Excess of taxation allowances over depreciation on fixed assets	(6,204)	-	(4,282)	-
Tax losses recoverable	1,475	-	1,475	-
Unremitted earnings from an associate	-	-	(3,279)	-
Other temporary differences	(21,983)	-	(25,998)	-
	<u>(26,712)</u>	<u>-</u>	<u>(32,084)</u>	<u>-</u>

	2010 £'000	2009 £'000
Deferred tax assets	5,412	1,406
Deferred tax liabilities	<u>(32,124)</u>	<u>(33,490)</u>
	<u>(26,712)</u>	<u>(32,084)</u>

### 20 Provisions for liabilities and charges

Group	Deferred taxation £'000	Dilapidations £'000	Onerous contracts £'000	Other provisions £'000	Total £'000
At 1 May 2009	33,490	21,867	14,552	1,145	71,054
Amounts provided	1,913	2,726	11,559	351	16,549
Amounts utilised	(3,279)	-	(5,106)	-	(8,385)
At 30 April 2010	<u>32,124</u>	<u>24,593</u>	<u>21,005</u>	<u>1,496</u>	<u>79,218</u>

## Notes to the financial statements

### **21 Derivatives**

The fair value of derivatives held by the company at 30 April, not recognised in the financial statements is as set out below

	2010 £'000	2009 £'000
Forward exchange contracts	<u>13,648</u>	<u>(34,993)</u>

The sterling principal amounts of forward foreign currency purchase contracts and contracted forward rates were as follows

	2010 £'000	2009 £'000
US dollar purchases	210,000	350,000
Contracted rates	1 53-1 68	1 46-1 88
US dollar sales	(50,000)	(250,000)
Contracted rates	1 54	1 92-1 94
Euro sales	(36,319)	(36,319)
Contracted rates	1 09-1 14	1 08-1 40
Euro purchases	-	223,662
Contracted rates	<u>-</u>	<u>1 12-1 12</u>

### **22 Deferred income**

	2010 £'000	2009 £'000
Advanced season ticket sales and other match related income	13,383	14,460
Sponsorship, advertising and other income	846	4,085
Deferred grant income	2,760	2,848
Royalties	87	71
	<u>17,076</u>	<u>21,464</u>

## Notes to the financial statements

### 23 Pensions and other post retirement benefits

The Group's defined benefit pension obligations relate to Dunlop Slazenger Group Holdings Limited ("DSGHL"), which was acquired on 28 January 2004. DSGHL operates a number of plans worldwide, the largest of which is of the funded defined benefit type. The Scheme is closed to new members.

The major assumptions used for the actuarial valuation were:

	2010 %	2009 %
Inflation rate	3.6	2.9
Rate of increase in salaries	n/a	n/a
Rate of increase in pensions payment	3.4	2.8
Discount rate	5.5	6.9

The assumed life expectancy on retirement age 65 are:

	2010	2009
<b>Future pensioners</b>		
Male	87.4	87.2
Female	90.2	90.0
<b>Current pensioners</b>		
Male	86.4	86.4
Female	89.2	89.4

The assumptions used to determine the expected return on assets reflects the underlying asset allocation at each period end. The plan asset mix and the expected return on the assets are as follows:

	2010 £'000	2010 %	2009 £'000	2009 %
Equities	19,760	7.3	14,974	7.8
Bonds	13,210	5.1	12,249	4.8
Cash and other	179	4.0	217	5.0
	<u>33,149</u>		<u>27,440</u>	

The amounts recognised in the profit and loss account are as follows:

	2010 £'000	2009 £'000
Amounts charged to operating profit		
Current service cost	12	19
Interest on retirement benefit obligation	2,303	2,506
Expected return on plan assets	<u>(1,645)</u>	<u>(2,121)</u>
Total operating charge	<u>670</u>	<u>404</u>
Amounts included in net finance costs		
Actual less expected return on assets	4,461	(6,336)
Actuarial (losses)/gains relating to plan assets	<u>(12,645)</u>	<u>5,887</u>
	<u>(8,184)</u>	<u>(449)</u>

Actuarial losses of £8,184,000 (2009: £449,000) have been recognised in the statement of total recognised gains and losses.

## Notes to the financial statements

### **23 Pensions and other post retirement benefits (continued)**

The movement in the deficit in the year can be summarised as follows

Movement in the year	2010 £'000	2009 £'000
Current service cost	(12)	(19)
Interest cost	(2,303)	(2,506)
Actuarial (loss)/gain	(12,645)	5,887
Employee contributions	(15)	(118)
Benefits paid out	1,628	2,551
Exchange gain/(loss)	223	(1,148)
	<u>(13,124)</u>	<u>4,647</u>

The amounts recognised in the balance sheet are as follows

	2010 £'000	2009 £'000
Present value of funded obligations	(52,888)	(39,764)
Fair value of scheme assets	33,149	27,440
Related deferred tax asset	5,527	3,414
Net pension liability	<u>(14,212)</u>	<u>(8,910)</u>

Changes in the present value of the defined benefit obligations are as follows

	2010 £'000	2009 £'000
Opening defined benefit obligation	(39,764)	(44,411)
Current service cost	(12)	(19)
Interest on scheme liabilities	(2,303)	(2,506)
Actuarial (loss)/gain	(12,645)	5,887
Contributions by scheme participants	(15)	(118)
Benefits paid	1,628	2,551
Exchange gain/(loss)	223	(1,148)
Closing defined benefit obligation	<u>(52,888)</u>	<u>(39,764)</u>

Changes in the fair value of scheme assets are as follows

	2010 £'000	2009 £'000
Opening fair value of the scheme assets	27,440	32,706
Expected return on scheme assets	1,645	2,121
Contributions by employer	1,216	1,382
Contributions by scheme participants	15	118
Actuarial gain/(loss)	4,461	(6,336)
Benefits paid out	<u>(1,628)</u>	<u>(2,551)</u>
Closing fair value of scheme assets	<u>33,149</u>	<u>27,440</u>

## Notes to the financial statements

### 23 Pensions and other post retirement benefits (continued)

The amounts for the current and previous four periods are as follows

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Total fair value of scheme assets	33,149	27,440	32,706	36,419	32,829
Present value of scheme liabilities	(52,888)	(39,764)	(44,411)	(50,451)	(48,008)
Net scheme obligations	(19,739)	(12,324)	(11,705)	(14,032)	(15,179)
Experience adjustments on plan liabilities	(12,645)	5,887	4,652	(1,620)	(1,354)
Experience adjustments on plan assets	4,461	(6,336)	(2,969)	1,164	257

### 24 Share capital

Company	Share capital £'000			
Issued in the period and at 30 April 2010	1			
Group	Share capital £'000			
At 1 May 2009 and at 30 April 2010	1			
	Authorised Number	£'000	Allotted, called up & fully paid Number	£'000
Ordinary shares of 0.1p each				
Issued in the period and at 30 April 2010	1,000,000	1	1,000,000	1

999,800 shares were issued to Mr M J W Ashley on 27 March 2009 in exchange for 998 shares in Sports Direct International plc. 200 shares were issued to Mr M J W Ashley on 27 March 2009 in exchange for 2 shares in St James Holdings Limited. The fair value of the shares in Sports Direct International plc at 27 March 2009 was 59p and the difference between fair value and nominal value has been credited to share premium.

Advantage has been taken of merger relief in respect of the acquisition of shares in St James Holdings Limited and no premium has been accounted for.

#### Contingent share awards

Sports Direct International plc operates two share award schemes, which are detailed below



## Notes to the financial statements

### **24 Share capital (continued)**

#### **The Bonus Share Scheme**

Under the terms of the Bonus Share Scheme, which was approved by the shareholders on 9 September 2009, the Board may make share awards in respect of the ordinary shares in the Company to employees based on a percentage of salary and subject to performance conditions. The extent to which the awards vest is based on whether the Group meets underlying EBITDA targets for the 2010 and 2011 financial years.

The first awards of 34,898,000 shares were granted on 14 October 2009 at an average price of 99.50p. These shares will only vest if the performance conditions are met over the next three years.

A share-based payment charge of £9,484,000 was recognised in respect of these share awards for the 52 weeks ended 25 April 2010, based on the directors' best estimate of the number of shares that will vest.

#### **The Performance Share Plan**

Under the terms of the Performance Share Plan, which was approved by the shareholders on 11 February 2007, the Board may make share awards in respect of the ordinary shares in the Company to executive directors based on a percentage of salary and subject to performance conditions. The extent to which the awards vest is based on earnings per share growth and total shareholders' return over a period of three financial years.

The first awards of 446,512 shares were granted on 5 April 2007 at an average price of 268.75p.

The second awards of 1,975,308 shares were granted on 16 July 2008 at an average price of 60.75p.

The third awards of 2,696,628 shares were granted on 13 August 2009 at an average price of 89.00p.

A share-based payment charge of £1,283,000 was recognised in respect of these share awards for the 52 weeks ended 25 April 2010, based on the directors' best estimate of the number of shares that will vest.

### **25 Reserves**

Company	Share premium £'000	Profit & loss account £'000
Profit for the period and at 30 April 2010	241,517	3

## Notes to the financial statements

### 25 Reserves (continued)

Group	Share premium £'000	Other reserve arising on merger £'000	Other reserve employee benefit trust £'000	Foreign currency translation reserve £'000	Profit & loss account £'000
At 1 May 2009	241,517	(291,088)	(6,094)	48,580	93,548
Loss for the year	-	-	-	-	(592)
Actuarial losses	-	-	-	-	(8,184)
Translation differences	-	-	-	(7,947)	-
Share-based payments	-	-	-	-	10,767
At 30 April 2010	<u>241,517</u>	<u>(291,088)</u>	<u>(6,094)</u>	<u>40,633</u>	<u>95,539</u>

The other reserve arising on consolidation represents the cost of investment in the merged entities less the value of the share capital and capital reserves including share premium in the merged entities

### 26 Minority interest

	SDI £'000	Other £'000	Total £'000
At 1 May 2008	45,258	3,242	48,500
Acquisitions	-	(340)	(340)
Minority share of (loss)/profits	<u>(10,560)</u>	<u>330</u>	<u>(10,230)</u>
At 30 April 2009	34,698	3,232	37,930
Acquisitions	-	(1,632)	(1,632)
Minority share of profits/(loss)	<u>10,457</u>	<u>(217)</u>	<u>10,240</u>
At 30 April 2010	<u>45,155</u>	<u>1,383</u>	<u>46,538</u>

### 27 Reconciliation of movements in shareholders' funds

	2010 £'000	2009 £'000
Loss for the financial year	(592)	(41,173)
Other recognised gains and losses relating to the year (net)	(16,131)	44,205
Reversal of share based payment charge	10,767	-
Dividend paid	-	(20,805)
Net reduction in shareholders' funds	<u>(5,956)</u>	<u>(17,773)</u>
Opening shareholders' funds	<u>86,464</u>	<u>104,237</u>
Closing shareholders' funds	<u>80,508</u>	<u>86,464</u>

## Notes to the financial statements

### 28 Net cash inflow from operating activities

	2010 £'000	2009 £'000
Operating profit	7,518	17,380
Depreciation	50,539	48,237
Amortisation of goodwill, trademarks and licences	21,049	21,096
Exchange difference on translation	-	30,514
Amortisation of players' registrations	13,432	19,968
Profit on disposal of intangible assets	184	196
Defined benefit pension plan current service costs	670	395
Defined benefit pension plan employer contributions	(1,216)	(1,225)
Share based payments	10,767	-
Decrease/(increase) in stocks	43,417	(43,089)
Decrease/(increase) in debtors	3,261	(8,239)
Increase in creditors	33,416	24,312
(Decrease)/increase in deferred income	(4,388)	3,749
<b>Net cash outflow from operating activities</b>	<b>178,649</b>	<b>113,294</b>

### 29 Reconciliation of net cash flow to movement in net debt

	2010 £'000	2009 £'000
Increase in cash in the period	123,215	18,099
Cash inflow/(outflow) from change in debt and lease financing	3,529	(7,814)
Changes in net debt resulting from cash flows and movement in net debt in the period	126,744	10,285
Net debt at 1 April 2009	(581,191)	(591,476)
<b>Net debt at 30 April 2010</b>	<b>(454,447)</b>	<b>(581,191)</b>

### 30 Analysis of changes in net debt

	At 1 May 2009 £'000	Cash flow £'000	At 30 April 2010 £'000
Bank overdraft	(478,414)	130,398	(348,016)
Cash	32,366	(7,183)	25,183
	(446,048)	123,215	(322,833)
Bank and other borrowings	(134,498)	3,447	(131,051)
Finance leases	(645)	82	(563)
	(581,191)	126,744	(454,447)

## Notes to the financial statements

### 31 Commitments under operating leases

At 30 April 2010 the Group had annual commitments under operating leases as follows

	2010 £'000	2009 £'000
<b>Group</b>		
Leases expiring within one year	829	901
Leases expiring within two to five years	20,610	15,600
Leases expiring after five years	56,312	59,473
	<u>77,751</u>	<u>75,974</u>

### 32 Deferred signing-on and transfer fees payable

Commitments in respect of deferred signing-on fees and loyalty payments due to players under contract at the year end and not provided in the financial statements amounted to £nil (2009 £nil). Such fees are charged to the profit and loss account in the period in which payment becomes probable.

Under the terms of certain contracts with other football clubs in respect of player transfers, certain additional amounts would be payable by the Group if conditions as to future team selection or performance are met. The maximum that could be payable is £3,353,000 (2009 £3,656,000).

### 33 Related party transactions

The Group entered into the following material transactions with related parties:

The Group has taken advantage of the exemptions contained within IAS 24 - Related Party Disclosures from the requirement to disclose transactions between Group companies as these have been eliminated on consolidation.

*52 weeks ended 25 April 2010*

Related party	Relationship	Sales £'000	Purchases £'000	Trade and other receivables £'000	Trade and other payables £'000
Heatons	Associate	22,901	-	3,411	-
No Fear International Limited	Joint venture	-	-	-	(1,775)
PBF International Limited	Joint venture	-	-	2,279	-
Mike Ashlev	Shareholder	-	-	-	(653)

Mike Ashlev leases certain properties to various companies in the Group which are operated as retail and distribution premises. A commercial rent is charged in respect of these leases.

Compensation paid to key management of the Group was £821,584, including pension contributions of £7,973.

During the current and prior year, advertising and promotional services were provided to companies associated with Mr M J W Ashlev, the ultimate shareholder. No consideration was paid or payable for these services.

## Notes to the financial statements

### **33 Related party transactions (continued)**

Mr M J W Ashley also continued to provide loan facilities to the Group during the year. The total balance outstanding at 30 June 2010 was £256.9 million (30 June 2009 £242.9 million). The maximum amount outstanding in the year was £139.8 million (2009 £112 million). No interest was payable on the loan for either the current or prior year.

Mr M J W Ashley also advanced £13.25 million to the Group during the year in respect of future amounts receivable from the disposal of players' registrations. At the same time the Group assigned the corresponding debts due from the purchasing clubs to Mr Ashley.

### **34 Contingent assets and liabilities**

As a matter of course the Group undertakes action in numerous parts of the world to protect its trade mark registrations and in connection with the Group's licensees. Such actions are usually resolved in the ordinary course of business. The Group is, however, party to a dispute and since 2007 has provided for an amount representing the financial estimation of the potential loss if the outcome was not to be in its favour. The Group believes that to provide further information would be seriously prejudicial to the case.

### **35 Post balance sheet event**

Subsequent to the balance sheet date the player registrations of certain players have been acquired and disposed of, the net profit including associated costs from these transfers is £25,737,000.

### **36 Critical accounting estimates and judgements**

The critical accounting estimates and judgements made by the Group regarding the future or other key sources of estimation, uncertainty and judgement that may have a significant risk of giving rise to a material adjustment to the carrying values of assets and liabilities within the next financial year are:

#### **Impairment of goodwill**

The calculation for considering the impairment of the carrying amount of goodwill requires a comparison of the present value of the cash-generating units to which the goodwill has been allocated, to the value of goodwill and associated assets in the balance sheet. The calculation of present values requires an estimation of the future cash flows expected to arise from the cash-generating units and the selection of a suitable discount rate. The key assumptions made in relation to the impairment review of goodwill are set out in Note 10.

#### **Impairment of other intangible assets**

The calculation for considering the impairment of the carrying amount of other intangible assets with an indefinite life, specifically brands, trade marks and licences, requires a comparison of the present value of the related cash flows to the value of the other intangible assets in the balance sheet. The calculation of present value requires an estimation of the future cash flows expected to arise from the other intangible assets and the selection of a suitable discount rate. The key assumptions made in relation to the impairment review of other intangible assets are set out in Note 10.

#### **Useful economic life of intangible assets**

For intangible assets which have a finite life, the directors revisit their estimate of useful economic life at each period end and revise accordingly. Licences and trade marks typically have a life of between 10 and 12 years.

## Notes to the financial statements

### 36 Critical accounting estimates and judgements (continued)

#### Identification and valuation of acquired intangible assets

On acquisition, each material separable intangible asset is identified and valued by the directors with assistance from a professional third party. Any such calculation is judgmental in nature as it is based on a valuation methodology.

Brand valuations are typically valued using the relief from royalty valuation methodology.

The nature and carrying amounts of these assets are set out in Note 10.

#### Provision for obsolete, slow moving or defective inventories

The directors have applied their knowledge and experience of the sports retail industry in determining the level and rates of provisioning required in calculating the appropriate inventory carrying values. The nature and carrying amounts are set out in Note 14.

#### Financial position of retirement benefit plans

The net defined benefit pension plan assets or liabilities are recognised in the Group's balance sheet. The determination of the financial position requires assumptions to be made regarding *inter alia* future salary increases, mortality, discount rates and inflation. The key assumptions made in relation to the pension plan are set out in Note 23.

#### Provision for dilapidations and onerous lease contracts

The basis of the estimation of the provisioning for dilapidations and onerous lease contracts is detailed in the provision accounting policy and Note 20.

Estimates and judgments are continually evaluated and are based on historical experience, external advice and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### Provision for costs relating to regulatory enquiries

Provision has been made for legal costs incurred in the period relating to ongoing regulatory enquiries.

## Profit and loss account

	2010 £'000	2009 £'000
Turnover	-	-
<b>Operating profit</b>	-	-
Interest receivable and similar income	2	1
<b>Profit on ordinary activities before taxation</b>	2	1
Tax on profit on ordinary activities	-	-
<b>Profit for the financial year</b>	2	1