The Sunderland Association Football Club Limited

Annual report and accounts for the year ended 31 July 2002

Registered Number 49116

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The Sunderland Association Football Club Limited

Annual report and accounts for the year ended 31 July 2002

Contents

The Sunderland Association Football Club Limited

Directors' report for the year ended 31 July 2002

The directors present their report and the audited accounts of the Company for the year ended 31 July 2002.

Principal activity, results and review of the business
The principal activity of the Company is that of a professional football club.

The Company made a loss for the financial year after taxation of £3,967,000 (2001 – profit of £713,000). The directors do not recommend a final ordinary dividend (2001 - £80 per share totalling £2,440,000).

The balance of losses for the financial year, amounting to £3,967,000, will be transferred to reserves.

Directors and their interests
The directors during the year are shown below:

M A Blackbourne	(Director of Football Operations)
L A Callaghan	(Communications Director)
R S Murray	(Chairman)
J M Fickling	(Vice Chairman)
H Roberts	(Chief Executive – resigned 31 July 2002, re-appointed 17 October 2002)
K J Slater	(Marketing Director)
P I Walker	(Finance Director)

None of the directors had any interest in the share capital of the Company at any time during the year.

Hugh Roberts was re-appointed to the Board of Sunderland PLC on 17 October 2002. He left as at the end of July, and following a change in personal circumstances returned to his role as an executive director of the Group.

The interests of Mr J M Fickling, Mr R S Murray and Mr H Roberts in the ordinary share capital of Sunderland PLC, the Company's ultimate parent undertaking, and their entitlement to purchase ordinary shares of 1p each in Sunderland PLC under share option schemes are shown in the accounts of Sunderland PLC.

At 1 August 2001 and at 31 July 2002 Mr M A Blackbourne, Mrs L A Callaghan, Mr K J Slater and Mr P I Walker held shares in Sunderland PLC, the company's parent undertaking, as set out below:

	1p ordinary shares 31 July 2002	1p ordinary shares 31 July 2001
M A Blackbourne	**12,600**	12,600
L A Callaghan	-	-
K J Slater	**100**	100
P I Walker	-	-

Mrs L A Callaghan, Mr K J Slater and Mr P I Walker have entitlement to purchase ordinary shares of 1p each under the Sunderland PLC Executive Share Option Schemes as set out below:

	Number at 1 August 2001	Granted	Surrendered	Number at 31 July 2002	Exercise price	Period of exercise
L A Callaghan	5,000	-	-	5,000	425p	28/07/01 – 28/07/08
L A Callaghan	20,000	-	-	20,000	307.5p	26/10/03 – 26/10/10
K J Slater	60,000	-	-	60,000	307.5p	26/10/03 – 26/10/10
P I Walker	25,000	-	-	25,000	307.5p	26/10/03 – 26/10/10

Employees

The Company places considerable value on the involvement of its employees and recognises the importance of good communication within the workplace.

The Company has an equal opportunities policy. The aim of the policy is to ensure that no job applicant or staff member receives less favourable treatment on the grounds of ethnic origin, gender or disability.

It is also the Company's policy to give full and fair consideration to all applications from disabled persons, with due consideration being given to respective aptitudes and abilities. The same policy applies in the event of employees who become disabled during employment. Appropriate training is provided where applicable.

Post balance sheet events

Details of subsequent events are provided in note 19 to the financial statements.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss for the year to that date. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements in accordance with applicable accounting standards;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking steps for the prevention and detection of fraud and other irregularities.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, a resolution to appoint its successor, PricewaterhouseCoopers LLP, as auditors to the company will be proposed at the annual general meeting.

By Order of the Board

P I Walker
Secretary

28 February 2003

Independent auditors' report to the members of The Sunderland Association Football Club Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the statement of historical cost profits and losses, the reconciliation of movements in equity shareholders' funds, the statement of total recognised gains and losses and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 July 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
28 February 2003

The Sunderland Association Football Club Limited

Profit and loss account for the year ended 31 July 2002

	Note	2002 £'000	Restated (see note 21) 2001 £'000
Turnover		**43,829**	46,021
Cost of sales		**(33,373)**	(32,782)
Gross profit		**10,456**	13,239
Administration expenses		**(18,540)**	(11,837)
Operating (loss)/profit		**(8,084)**	1,402
Profit on disposal of players	2	**5,214**	1,182
(Loss)/profit on ordinary activities before interest		**(2,870)**	2,584
Interest payable and similar charges	1	**(243)**	(87)
Short term deposit interest receivable		**140**	348
(Loss)/profit on ordinary activities before taxation	1	**(2,973)**	2,845
Taxation on profit on ordinary activities	5	**(994)**	308
(Loss)/profit for the year		**(3,967)**	3,153
Equity dividends	6	**-**	(2,440)
Retained (loss)/profit for the year	15	**(3,967)**	713

All results relate to continuing operations.

Note of historical cost profits and losses

	2002 £'000	Restated (see note 21) 2001 £'000
Reported (loss)/profit on ordinary activities before taxation	**(2,973)**	2,845
Difference between historical cost depreciation and actual charge on revalued amount	**3**	3
Realisation of property revaluation gain of previous years	**161**	-
Historical cost (loss)/profit on ordinary activities before taxation	**(2,809)**	2,848
Taxation	**(994)**	308
Dividends	**-**	(2,440)
Retained historical cost (loss)/profit for the year	**(3,803)**	716

Reconciliation of movements in equity shareholders' funds

	2002 £'000	Restated (see note 21) 2001 £'000
(Loss)/profit for the financial year	**(3,967)**	3,153
Dividends payable	**-**	(2,440)
Net movement in equity shareholders' funds	**(3,967)**	713
Opening equity shareholders' funds	**6,471**	5,758
Closing equity shareholders' funds	**2,504**	6,471

The Sunderland Association Football Club Limited

Statement of total recognised gains and losses

	2002	Restated (see note 21) 2001
	£'000	£'000
(Loss)/profit for the financial year	**(3,967)**	713
Total recognised (losses)/gains for the year	**(3,967)**	713
Prior year adjustment (note 21)	**994**	-
Total recognised gains and losses since last annual report	**2,973**	713

The Sunderland Association Football Club Limited

Balance sheet as at 31 July 2002

	Note	2002 £'000	2002 £'000	Restated (see note 21) 2001 £'000	Restated (see note 21) 2001 £'000
Fixed Assets					
Intangible assets	7	**14,041**		20,989	
Tangible assets	8	**12,531**		7,904	
Investments	9	-		-	
			26,572		28,893
Current assets					
Stocks	10	**248**		191	
Debtors	11	**14,976**		10,106	
Short term deposits		-		1,405	
Cash at bank and in hand		**17**		975	
		15,241		12,677	
Creditors: amounts falling due within one year	12	**(36,494)**		(31,131)	
Net current liabilities			**(21,253)**		(18,454)
Total assets less current liabilities			**5,319**		10,439
Creditors : amounts falling due after more than one year	13		**(2,815)**		(3,968)
			2,504		6,471
Capital and reserves					
Called up equity share capital	14		**30**		30
Share premium account	15		**4,700**		4,700
Revaluation reserve	15		**82**		246
Profit and loss account	15		**(2,308)**		1,495
Equity shareholders' funds			**2,504**		6,471

The financial statements on pages 5 to 21 were approved by the board of directors on 28 February 2003 and were signed on its behalf by:

R S Murray
Chairman

Accounting policies

Basis of preparation
The accounts have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and in accordance with applicable accounting standards in the United Kingdom. Accounting policies have been applied consistently in the accounts year on year except for the adoption of FRS 19.

Depreciation
Depreciation has been calculated to write down the cost or valuation of tangible fixed assets over their expected useful lives at the following rates:

Freehold property	50 years in equal annual instalments to an estimated residual value
Furniture, fixtures and equipment	3-10 years in equal annual instalments
Tractors	5-8 years in equal annual instalments
Motor vehicles	4 years in equal annual instalments

Freehold land is not depreciated.

Costs of ongoing capital projects are held as capital works in progress in the balance sheet and are transferred to the appropriate fixed asset categories upon completion.

Land and buildings
Prior to 2000, some freehold properties were revalued every few years. On adoption of FRS 15 in 2000, the company has followed the transitional rules to retain the book value of land and buildings. Transfers are made to retained profits each year in order to amortise surpluses over the remaining useful economic lives of the properties. On disposal the profit and loss is calculated by reference to the net book value and any unamortised revaluation surplus is transferred from revaluation reserves to retained profit.

Intangible assets
The costs associated with the acquisition of players' registrations are capitalised as intangible fixed assets. These costs are amortised from the month of purchase fully over the contract period. Players' registrations are written down for impairment when the carrying amount exceeds the amount recoverable through use or sale.

Stocks
Stocks are valued at the lower of cost and net realisable value.

Expenditure under the Safety of Sports Grounds Act 1975
Expenditure under the Safety of Sports Grounds Act 1975 and as recommended by Lord Justice Taylor's final report on the Hillsborough Stadium disaster, is charged to the profit and loss account. Grants from the Football Trust (1990) Limited, based on this expenditure, are also dealt with in the profit and loss account.

Lease rentals
Assets acquired under finance leases are capitalised and depreciated over their estimated useful lives. The interest element of the rental obligations is charged to the profit and loss account over the term of the lease. Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

Turnover
Turnover comprises gate receipts, retail, sponsorship, television and media income and invoiced sales, exclusive of value added tax. Television income is recognised in the period in which the relevant matches are televised and gate receipt income taken to the profit and loss account when the matches are played. Turnover in respect of the sale of various commercial rights to BSkyB is recognised in equal monthly instalments over the life of the contract.

Signing on fees
Contractual amounts of fees payable to players are recognised as prepayments and amortised over the contract term. The net balance of signing on fees relating to players sold is included within the calculation of the profit or loss on disposal of players' contracts.

Pensions
Pension costs relate to defined benefit and personal money purchase pension schemes and are charged to the profit and loss account in the period for which the contributions are payable.

Deferred taxation
During the year the Company changed its accounting policy on deferred tax in line with FRS 19. FRS 19 introduces a form of full provision for accounting for deferred tax, called the incremental liability approach, which replaces the partial provision approach previously followed under SSAP 15.

Deferred tax is now provided on timing differences where the Company has an obligation to pay more or less tax in the future as a result of the reversal of those timing differences. Previously deferred tax was provided on timing differences to the extent that they were expected to reverse in the foreseeable future.

The effect of the change in accounting policy for the year ended 31 July 2002 is a charge to the profit and loss account in the amount of £994,000. The effect of the change in accounting policy on the prior year results of the Company is disclosed in note 21.

Grants receivable
Grants received as a contribution towards specific expenditure on fixed assets are held in a deferred income account and recognised in the profit and loss account over the expected useful lives of the related assets. Other grants received are held in a deferred income account and recognised in the profit and loss account so as to match them with the expenditure to which they are intended to contribute.

Notes to the financial statements for the year ended 31 July 2002

1 (Loss)/profit on ordinary activities before taxation

(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):

	2002	2001
	£'000	£'000
Staff costs:		
Wages and salaries	**23,002**	20,759
Social security costs	**2,528**	2,253
Other pension costs	**168**	123
Accounting for players' transfer fees (see Note 2)	**6,570**	5,447
Auditors' remuneration	**18**	16
Depreciation	**1,019**	784
Loss on sale of fixed assets	**10**	-
Interest payable on bank and other borrowings repayable within five years	**186**	1
Interest payable on bank and other borrowings repayable after more than five years	**57**	86
Operating lease rentals – hire of plant and machinery	**200**	255
Grants received	**(607)**	(716)

2 Accounting for players' transfer fees

	2002	2001
	£'000	£'000
Amortisation of transfer fees	**7,104**	5,905
Provision for permanent diminution in the value of players' contracts	**4,680**	724
Profit on disposal of players' contracts	**(5,214)**	(1,182)
	6,570	5,447

3 Employees

The average number of persons employed by the Company during the year were as follows:

	2002 £'000	2001 £'000
Administration	**213**	190
Football	**64**	64
Match day staff	**326**	348
	603	602

4 Directors' emoluments

Directors' emoluments for the year (excluding pension contributions) totalled £627,623 (2001 - £441,284). The emoluments of the highest paid director amounted to £143,333 (2001 - £101,414). In addition the Company made payments of £26,000 (2001 - £8,895) on behalf of the director's personal pension scheme. Contributions totalling £52,063 (2001 - £30,678) were paid to money purchase pension schemes on behalf of five directors.

5 Tax on (loss)/profit on ordinary activities

(a) Analysis of tax charge/(credit) on ordinary activities

	2002 £'000	Restated (see note 21) 2001 £'000
Current tax	-	-
Deferred tax:		
Reversal of timing differences	**994**	(308)

5 Tax on (loss)/profit on ordinary activities (continued)

(b) Factors affecting tax charge for the year

	2002	2001
	£'000	£'000
(Loss)/profit on ordinary activities before tax	(2,973)	2,845
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	(892)	854
Effects of:		
Expenses not deductible for tax purposes and other permanent differences	(65)	(135)
Group relief not paid	427	(104)
Deferred tax movement not recognised	500	(923)
Losses	-	308
Loss carry back	30	-
	-	-

(c) Factors that may affect future tax charges

The Company has unprovided trading losses of approximately £6.8 million which are available for offset against future trading profits. A deferred tax asset has not been recognised in respect of these losses on the basis that they may only be offset against future taxable profits generated by the Company. There is currently insufficient evidence that any asset would be recoverable.

6 Equity dividends

	2002	2001
	£'000	£'000
Ordinary shares		
Nil final dividend (2001: £80 per share)	-	2,440

7 Intangible fixed assets

Transfer fees paid for players' contracts

	£'000
Cost	
At 1 August 2001	31,973
Additions	7,003
Disposals	(4,510)
At 31 July 2002	**34,466**
Accumulated depreciation	
At 1 August 2001	10,984
Amortised in the year	7,104
Permanent diminution in value	4,680
Released on disposal	(2,343)
At 31 July 2002	**20,425**
Net book amount	
At 31 July 2002	**14,041**
At 31 July 2001	20,989

8 Tangible fixed assets

	Freehold land and buildings	Leasehold land and buildings	Fixtures, fittings, equipment and vehicles	Capital work in progress	Total
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 August 2001	2,477	228	4,993	3,152	10,850
Additions	-	-	1,558	4,299	5,857
Disposals	(180)	-	(28)	(26)	(234)
Transfer between categories	-	-	782	(782)	-
At 31 July 2002	**2,297**	**228**	**7,305**	**6,643**	**16,473**
Comprising:					
Cost	2,152	228	7,305	6,643	16,328
Valuation 1996	145	-	-	-	145
	2,297	**228**	**7,305**	**6,643**	**16,473**
Accumulated depreciation					
At 1 August 2001	26	11	2,909	-	2,946
Amount provided	13	17	990	-	1,020
Disposals	(10)	-	(14)	-	(24)
At 31 July 2002	**29**	**28**	**3,885**	-	**3,942**
Net book amount					
At 31 July 2002	**2,268**	**200**	**3,420**	**6,643**	**12,531**
At 31 July 2001	2,451	217	2,084	3,152	7,904

The Company's freehold properties were valued by G L Hearn & Partners, Chartered Surveyors, as at 31 August 1996 on an existing use basis.

On an historical cost basis, freehold land and buildings would have been included at a net book amount of £2,186,000 (2001 - £2,223,000).

9 Fixed asset investments

	Shares in subsidiary	Other investment	Total
	£	£	£
Cost and net book amounts at 31 July 2001	5	-	5
Written off during the year	(5)	-	(5)
Cost and net book amounts at 31 July 2002	-	-	-

10 Stocks

Stocks at 31 July 2002 and 31 July 2001 comprise goods for resale.

11 Debtors

	2002	2001
	£'000	£'000
Trade debtors	**5,116**	2,928
Amounts owed by parent company	-	-
Other debtors	**3,406**	45
Prepayments and accrued income	**6,454**	6,139
Deferred tax asset	-	994
	14,976	10,106

Deferred tax asset

	2002	Restated 2001
	£'000	£'000
Losses	-	994
Undiscounted deferred tax asset	-	994

11 Debtors (continued)

	£
At 1 August 2000 as previously stated	-
Prior year adjustment	686
At 1 August 2000 restated	686
Revised credit for the year ended 31 July 2001	308
At 31 July 2001 restated	994
Deferred taxation charge in the year ended 31 July 2002	(994)
At 31 July 2002	-

12 Creditors: amounts falling due within one year

	2002	2001
	£'000	£'000
Bank overdraft	**10,809**	-
Bank loan (Note 13)	**188**	185
Football Trust loan (Note 13)	-	50
Trade creditors	**2,121**	3,631
Amounts due to parent company	**2,340**	3,564
Other creditors	**54**	40
Taxation and social security	**1,539**	1,292
Accruals and deferred income	**19,443**	22,369
	36,494	31,131

The bank overdraft is secured by a charge over certain assets of the Company.

13 Creditors: amounts falling due after more than one year

	2002 £'000	2001 (restated)
Deferred income	**1,842**	3,142
Trade creditors	**341**	-
Bank loan	**632**	826
	2,815	3,968
Bank loan repayments fall due as follows:		
Within one year	**188**	185
Between one and two years	**193**	188
Between two and five years	**439**	608
After more than five years	**-**	30
	820	1,011
Football Trust loan repayments fall due as follows:		
Within one year	**-**	50
	-	50

The Football Trust loan is interest free and is unsecured.

Bank loans are all denominated in sterling and represented by facilities of £1 million bearing interest at 1.75% over LIBOR and £350,000 bearing interest at 1.65% over LIBOR, both secured by a charge over certain assets of the group.

14 Called up equity share capital

	2002 £'000	2001 £'000
Authorised		
30,500 Ordinary shares of £1 each	**30**	30
Allotted, issued and fully paid		
30,500 Ordinary shares of £1 each	**30**	30

15 Reserves

	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000
As at 1 August 2001 as previously stated	4,700	246	501
Prior year adjustment – FRS 19	-	-	994
At 1 August 2001 as restated	4,700	246	1,495
Loss for the year	-	-	(3,967)
Reserve transfer on depreciation of revalued properties	-	(3)	3
Realisation of revaluation reserve on sale of property	-	(161)	161
At 31 July 2002	**4,700**	**82**	**(2,308)**

16 Lease commitments

Operating leases on plant and machinery

Annual commitments on operating leases which expire in:

	2002 **£'000**	2001 £'000
Under one year	**17**	**34**
Between one and two years	**39**	**15**
Between two and five years	**154**	**119**
Over more than five years	**-**	**14**
	210	**182**

17 Pension commitments

Certain staff of the Group are members of either the Football League Limited Players Retirement Income Scheme, a defined contribution scheme, or the Football League Pension and Life Assurance Scheme, a defined benefit scheme. As the Group is one of a number of participating employers in the Football League Limited Pension and Life Assurance Scheme, it is not possible to allocate any actuarial surplus or deficit and consequently contributions are expensed in the profit and loss account as they become payable. The assets of the Schemes are held separately from those of the Group, being invested with insurance companies.

Contributions are also paid into individuals' private pension schemes. Total contributions charged during the period amounted to £150,000.

18 Contingent liabilities

Under the terms of certain contracts for the purchase of players' registrations future payments may be due to third parties, dependent on the success of the team and/or individual players. At the balance sheet date, the maximum contingent liability was £1,350,000.

19 Post balance sheet events

Since the balance sheet date the following player trading has occurred:

On 13 August 2002 Stephen Wright was purchased from Liverpool Football Club.

On 20 August 2002 Matthew Piper was purchased from Leicester City Football Club.

On 30 August 2002 Tore Andre Flo was purchased from Rangers Football Club and Marcus Stewart from Ipswich Town Football Club.

On 20 January 2003 Mart Poom was purchased from Derby County Football Club.

The maximum cost of these purchases including conditional payments amounts to £20,750,000.

Subsequent to the balance sheet date the Board decided to seek a change in the football management team and parted company with Peter Reid, Adrian Heath, Bobby Saxton, Tony Book and Mike Walsh. A new management team of Howard Wilkinson (Manager) and Steve Cotterill (Assistant Manager) was appointed.

20 Ultimate and immediate parent company

The entire issued share capital of the Company is held by Sunderland PLC, a company registered in England. Copies of the Group Accounts can be obtained from Sunderland PLC, Stadium of Light, Sunderland, SR5 1SU.

21 Prior year adjustment

As a result of the change in accounting policy for deferred tax comparative figures for the year ended 31 July 2001 have been adjusted as shown below:

	Retained profit for the period £'000	Retained profit and loss reserve £'000	Net assets £'000
As previously reported	405	501	5,477
Prior year adjustment for FRS 19	308	994	994
As restated	**713**	**1,495**	**6,471**